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THE PUBLIC CHOICE PERSPECTIVE AND
KNIGHT'S INSTITUTIONALIST BENT

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SYNOPSIS

A close scrutiny of a sample of the works of the chief protagonists of the Public Choice "Revolution" is a revelation. Endless cases of contradiction, basic assumptions and motivations which have much in common with Marxism are detected. Knight's legitimizing role is an illusion (not to say a fraud). Knight's affinities with the institutionalists are established.

Distinction is made between the contradictions assignable to the Ricardian Vice and unavoidable contradictions arising from complexities in the phenomena and partiality in the theories. The languages of abstract, applied and professional economics are identified and critically examined.

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The Public Choice Seditio (minor revolution) is nowadays becoming a seduction. A close scrutiny of a small sample of works written by its chief protagonists reveals countless cases of contradiction, double-thinking, gear-switching, politicking, compromise, etc. I will review some of these. In the process I will (section 1) uncover an unacknowledged and distasteful lineage (or one deemed to be such) -- a basic assumption and a strong motivation which are shared with Marxism --, (section 2 and 3) dissociate Frank Knight from a legitimizing role in this Seditio, or from the wishful thinking that he is its forerunner, and show the extent of his affinity with the institutionalists. I will analyze the contradictions, and in the process I will (section 4) look back to an alternative "ultimate father" -- Desiderius Erasmus -- and (section 5) discuss a Ricardian pedigree: the Vice.

The first section deals with the question of individuals or groups as analytical units, and points to the problem of political and ideological motivation in scientific work. The second and third focus on various contrasting perceptions and theoretical constructs of *Homo Sapiens*. These three sections constitute a part of my studies on the time-space stream of the Seditio, its relationship to other academic movements, and an appraisal of its basic assumptions and the motivation behind it. My emphasis on the contradiction, gear-switching and politicking in the works of its chief protagonists may be viewed as an answer to their accusations of the same fault in the works of others. But it is also presented as an extreme example of a more general fault in economic literature. This particular manifestation of the phenomenon is analyzed in the two last sections.

The works of the chief protagonists do not take into account crucial aspects of reality, but are constructed and applied as if they did. One is faced with an ostentatious display of the Ricardian Vice. One problem lies in their urge to take an active part in the politics of the day in which they perceive themselves as votaries of individual freedom. Another is a total lack of awareness or of acknowledgment of the high level of abstraction in their theoretical work. The fact is that reality is presented in a Procrustean mode because of the confusion of theoretical, practical and political considerations. This inevitably leads to a discussion of the applicability of theories in general.

In the fourth section, it is shown how the abstract and applied sciences require different languages. The latter demands, if it is to be properly developed, the conduct of reasoning without ignoring the vagueness with which reality presents itself. In the fifth section, it is shown how scientific and professional works also use different languages. The latter demands, if it is to be effective, the conduct of reasoning with due regard for the peculiarities of the reality or case in question. Both the applied sciences and professional works demand, if they are to be properly conducted, the sequential attention to "rays of light" from distinct and mutually contradictory abstract theories. The latter by itself, the pure logic of economics, do not authorize "a single syllable of advice" (Senior: I call this **The Indetermination of Senior**).

Public Choice and other extensions of marginalism designed to analyze phenomena which lie outside its traditional field of inquiry are here called

catallaxy, i.e. the science of exchange. This only partially follows the chief protagonist of the Sedition, Professor Buchanan (1985, p. 20) himself, who joins Hayek in proposing that catallaxy is a substitute for marginalism. Hicks (1980, p. 212), following von Mises, and Edgeworth among other nineteenth century economists, also re-names all marginalists as **catallactists**.

Professors Baranzini and Scazzieri (1986, pp. 22-4) follow Hicks, and refer to R. Wateley's adoption of **catallactics** to describe economics as a whole and to Mill's reaction against such an attempt. Finally, Schumpeter (1986, p. 536) refers to "how this must have struck critics: What! -- Political Economy, the science of the economic fate of humanity, entirely reduced to a miserable theory of bargaining!". As a similar reductionism underlies Professor Buchanan's (1985, p. 20) vision of what economics ought to be, I follow this in part -- hence the sequence of words catallaxy, catallactist, catallactic, catallactism.

Harry Johnson's (1971) **as if** approach to the conduct of scientific revolutions, as applied to the "Keynesian Revolution and the Monetarist Counter-Revolution", reveals five general requirements for the success of these intellectual movements, and an additional one in the case of counter-movements. Johnson focuses only on the scientific warfare involved in revolutionary processes. The catallactic Sedition is very well "illuminated" by his schema, as I found out when replicating it (Silveira 1989). It is **as if** the chief protagonists were using Johnson's article to inform their own behavior.

In this paper, I am investigating Johnson's additional requirement -- a grand pre-revolutionary pioneer, a major economist somehow connectable to the counter-movement --, a line which has not been covered in my previous work. Here it is taken as the leitmotif of the paper, and leads to a further elaboration of Johnson's first requirement -- a social cause, and an associated central proposition with which to concentrate the attack on the dominant academic orthodoxy. In view of the numerous quotations, and of my attempt to develop Johnson's very appropriate soft manner, some formalism is dropped. I shall generally be referring to Professors Buchanan and Tullock, or just to the former, when talking about the catallactists.

Revolutions need a social cause. Catallactists seem to have elected **individual freedom**, which is in reality a euphemism for a strong distaste for the ascendant role of government. **Homo economicus does not matter** is their central proposition. The latter attacks the unreality of the **Public Man** construct, a basic assumption of the political science orthodoxy, and particularly of the welfare economists and the Keynesians; monetarists were tactically saved, or that was my interpretation of what seems to amount to nothing more than playing politics.

These above "orthodoxies" are accused of gear-switching, "the individual must somehow shift his psychological and moral gears when he moves between the private and social aspects of life" (Buchanan and Tullock 1965, p. 20). These above "orthodoxies" are accused of perceiving politicians as "benevolent despots", or "economic eunuchs". As a solution, **homo economicus** is the catallactic theoretical assumption for the behavior of all economic and political agents. **Homo economicus is all that matters** may be taken as the catallactic refrain.

This is all that needs to be known from my previous paper ¹. As in that paper, my basic reference for the sedition is naturally its paradigmatic book, **The Calculus of Consent**, by Buchanan and Tullock (1965) -- from now on it will be referred to as the **classic**, as Buchanan himself calls it. My chief supplement

is Buchanan's (1985) most recent collection of papers, *Liberty, Market and the State*, hereinafter called the popular -- it contains not only the chief protagonist's current views, but also many papers which are of a non-technical nature.

1 - THE CATALACTIST-MARXIST COMMUNION

Economists, like physicists (Kuhn 1971, p. 37), commit the fault of ignoring and calling "unscientific" all aspects of a phenomenon which cannot be explained by their theories. If this is totally unacceptable, however, they may throw the inexplicable elements outside the scope of their own science with varying degrees of contempt. One example is the treatment dispensed by Friedman, Machlup and Mason to the behaviorist antithesis to microeconomics, as registered by its main protagonist (Simon 1979, pp. 276-7).

Another example is provided by Stigler (1960, p. 45) in a surprising statement about the influence of evolutionary theories on the economic perspective or world-view. He says that Darwin's theory "has increased our awareness of the malleability of economic institutions and men (as has Marx's theory of history)" -- the surprise, of course, is in the acceptance of the idea of malleability. Note how Marx is put in parentheses and placed outside economics... A similar treatment may be found in Buchanan (1985, p. 4), "And these [lay] ideas [about exploitation in capitalism] would find alleged intellectual legitimacy in the many variants of the Marxian dialectic, the 'science of historical development'".

Hicks first considers interpreting the marginalist movement as a counter-revolution against socialism, but then he dismisses it because of the lack of evidence in the writings of Walras-Jevons-Menger. But he does indicate variable anti-socialist motivation in the following generation, naming particularly the triumvirate Wicksell-Pareto-von Mises. In a footnote, Hicks (1980, p. 213) adds, "It is in his book on public finance (*Finanztheoretische Untersuchungen*) [1896] that Wicksell carries his individualism to the most extreme lengths".

As an extension of marginalism, catallaxy might have been explicitly launched as a counter-movement against Marxism. As an anti-socialist champion, Wicksell would be without question the grand forerunner since the launching. Loss of individual freedom, deficit, growth of government, dirigisme, all major catallactic themes are closely connectable and easily understood by the layman as Marxism. Monetarism, with Fisher as its forerunner and inflation as the social cause, would look like a form of catallactism. The *tour de force* of persuading economists that "markets are basically political institutions" (Buchanan 1985, p. 262) would be reduced from a Journey of Moses, say, to a Greek Marathon.

No great thought would be necessary to solve the problem of taking the "theorist of history" simultaneously as economist and as non-economist. Vagueness is his trade-mark and, after all, B is both A and non-A is not only at the core of the Marxian dialectic, but is also at the core of Hegel's approach (Georgescu-Roegen 1967, p. 23)... All *a priori* considerations certainly lead to the expectation of a severe treatment of Marxism by catallactists. But let the 'data speak for itself'.

A basic assumption made in the catallactic school, methodological individualism, is the focus of a major debate in economics as a whole. This is whether the individual or the group is the correct analytical unit. Given the latter (or the more sound recognition of the precariousness of both), the question comes down to why and when classes constitute legitimate organic

units. The 'data' collected shows that the extension of contradictions is very 'significant'.

Taking the classic book (Buchanan and Tullock 1965) first, there is one clear derogatory statement. It discounts the possibility of individuals accepting "the will of the decision-making group as their own in some undefined, metaphysical manner" (ibid., p. 251). A stronger one is a footnote quotation of Bentley, who views the adoption of the "social role" as sufficient for exclusion from the field of the social sciences (ibid., p. 342)! But catallactists state that they do not go so far. And, interestingly enough, the footnote supplements a text that recognizes "some usefulness" in the theory of collectivity, discarding, however, its application to Western democracies (ibid., p. 11).

There is a clear acceptance of the concept -- "Yet we know that 'groups' do exist as something apart from the individual members" (ibid., p. 297) --, and of its use as an analytical unit -- "Throughout our analysis the word 'group' could be substituted for the word 'individual' without significantly affecting the results" (ibid., p. 9)! The statement, however, is qualified, "the ultimate choice... can only take place in individual minds"... The only way of making sense of all this is to assume some strategic behavior. Indeed, it looks as if catallactists are always conducting offensive and defensive operations simultaneously.

In the popular book (Buchanan 1985), there is clear and strong negation of group behavior, "idealized collectivity does not, and indeed cannot, exist... [persons everywhere] remain pursuers of their own private and individual interests, despicable as they might be" (ibid., p. 6). But later in the book, in a comparative analysis of the U.S.A. (moral order) and Japan (moral community), one sees the individual increasingly losing himself in an identification with the community, as one moves from the former country to the latter (ibid., pp. 109, 112):

A moral community exists among a set of persons to the extent that individual members of the group identify with a collective unit, a community, rather than conceive themselves to be independent, isolated individuals.

Persons, ruled or rulers, do not behave towards each other as separate interacting individuals. They do not really consider themselves to be autonomous units... The difference here is that the relevant entities are themselves collectives rather than individuals.

I do not know of a better conceptualization... The number of contradictions is significantly reduced, but remains high, if one recognizes, as the 'data' demand, a gear-switching by catallactists. Outside the Western democracies it is legitimate to hypothesize group behavior. Not inside, however, there is no "mysterious group mind" here (Buchanan 1988, p. 6). Considering all the catallactic 'data', the "varying intensities" of the statements in favor of and against groups, one is surprisingly led into some kind of a draw. A strange one, certainly. They vote for the two alternatives -- groups exist and groups can be used as analytical units --, as well as for their opposites, and there are some votes in between also! It cannot be accounted for by logic, nor even by dialectics.

It is worth considering that the legitimacy of taking groups as analytical units is well established today. In the absence of a scientific breakthrough, a plain denial is a lost battle, even in the parallel case of chemistry. As Georgescu-Roegen (1967, p. 61) says, "we know quite a lot about every chemical element, but more often than not, this knowledge is of no avail in predicting

all qualities of a new compound". In social groups, infinitely more than in chemical compounds, new qualities emerge from the relationship itself, and memories remain when the latter is broken.

A second aspect is the surprisingly mild treatment given to Marxists. An explanation from the chief catallactist may help, but not suffice (Buchanan 1985, p. 7):

For myself, I can empathize much more closely with those who advance the pseudo-Marxist criticisms of monopoly capitalism than I can with those who advance the arguments about the potential benevolence of the state.

The "libertarian socialism" of his young days falls into the same category (see next section). The explanation must lie in something deeper than personal political sympathies. Under a *laissez faire* and the marginalist approach, governments naturally assume a redistributive role. Let me take Stigler (1983, p. 264):

Thus studies of effects of regulatory policies have usually been concerned with the effects upon prices and outputs, although the effects desired by the supporters of these policies have probably been upon the distribution of income. The panoply of regulatory measures can be used to effect vast income redistributions, and these redistributions of income do not appear explicitly in the budget of the state.

The explanation lies in moves to redistribute wealth; governments conduct a disguised redistribution. Hicks (1980, pp. 211-2) attributed the distributive perspective to Marxism and the exchange one to marginalism. The catallactic extension of the analysis to cover political behavior leads to a coming together of supposed opposites. "The proposition that a government is essentially an executive committee of the relevant selfish voters" follows easily on the same lines of reasoning, given the high level of abstraction of catallaxy. By replacing "the relevant selfish voters" with "the groups that matter", a legitimate procedure according with Buchanan, one can sense a Marxist flavor. Replacing "the groups that matter" with "the bourgeois class" one is literally reading the *Communist Manifesto* as referred to by Schumpeter (1949, p. 385). Whatever the differences in the theories that follow, the fact is that fundamentally catallactists and Marxists rely exclusively on the economic motive to analyze society. Let me reinforce the evidence with Brunner (1978, pp. 662, 664):

The essence of politics is redistribution and political conflicts center on matters of redistribution (authors' emphasis)... The basic nature of political structure suggests that the fact of wealth-redistribution be placed into a central position of the analysis of government, at least for the context of modern democracies.

The question of individual or group behavior becomes secondary, the class dimension tertiary, and so on, in the face of the single self-interested dimension at the root: namely, a common perception of the nature of human motivation, whether individually or in groups. The Marxists' gear-switching with the political system is not operative before the system has changed, anyway. Both catallactists and Marxists give an **economic interpretation** of society. So, I agree with catallactists about the "expediency" of avoiding their previous subtitle for the classic, but disagree entirely with the interpretation in terms of "terminological accident" (Buchanan and Tullock 1965, pp. 12-3):

The class-dominance approach to political activity is acutely related to

our own in an unfortunate terminological sense. By historical accident, the class dominance conception, in its Marxian variant, has come to be known as the "economic" conception or interpretation of State activity... So much has this word [economic] been misused and abused here, that we have found it expedient to modify the original subtitle of this book from "An Economic Theory of Political Constitutions" to that currently used.

Catallactic and Marxian works also seem to share about the same degree of ideological and advocacy contamination, if one accepts the appraisal of Marx by Schumpeter (1949, pp. 354-5). And the latter also points to what may be called the **urge to participate** as the usual motivation (ibid., p. 346):

most of us, not content with their scientific task, yield to the call of public duty and to their desire to serve the country and their age, and in doing so bring into their work their individual schemes of values and all their policies and politics -- the whole of their moral personalities up to their spiritual ambitions.

Catallactists are extreme examples of this, they are radical to the point of perceiving academic activity itself as a means of achieving their political goals, and of imagining themselves as torchbearers of individual freedom -- just like the Marxist if freedom is replaced by equality or social justice -- (Buchanan 1985, pp. 9, 12):

In the initial brochure for the Thomas Jefferson Center for Studies in Political Economy and Social Philosophy that Warren and I jointly prepared, we state that our purpose was to set up a 'community of scholars who wish to preserve a social order based on individual liberty'...

On the few occasions that Warren and I did meet [after 1968], however, I felt that there had been no change in our long-standing consensus on the purpose and objective of any program in political economy. There was really no need for us to discuss this commonly held commitment to what we considered to be the moral obligation of those in our discipline.

Finally, this shared and misplaced religious zeal is accompanied by the usual disguised intolerance -- let me bring in an extract from my previous paper (Silveira 1989). To catallactists pluralistic society means **only** differences in taste, not in values (Buchanan and Tullock 1965, p. 303): "Indeed, a widespread adoption of Judeo-Christian morality may be a necessary condition to the operation of any genuinely free society of individuals" (sic).

2 - "MAN AS WE KNOW HIM" BY CATALLACTISTS

Catallactists can only view themselves as counter-revolutionaries, because such a self-characterization is more in line with a law-and-order mentality. This psychological interpretation is consistent with what I find in the **popular**. Buchanan describes there what he sees as the set minds of the opponents to constitutional reforms; and it is interesting to note that the constitutional lawyers' "priesthood", and others who oppose reforms out of self-interest, are somehow despised **vis-a-vis** the "genuine anti-constitutionalist", or the "disinterested anti-constitutionalist" (Buchanan 1985, pp. 57-8). This is a change of gear, to say the least; what should appear, in the catallactic interpretation, is the citizens' **conscious selfish choice** about constitutional reforms, as exemplified by the "priesthood". And in the case of revolutionary or counter-revolutionary self-characterizations, the degree of popularity in the academic constituency would be all that mattered.

Catallactists are always going on about forerunners, and in so doing they also betray their counter-revolutionary mentality. One cannot fail to observe the frequent naming of the "Founding Fathers" of the U.S.A. as forerunners. I wonder whether Their reaction -- if one may imagine it -- would not be the understanding of that "as attemptedly humorous rather than insane" -- i.e. the reaction of some sales managers when asked by Simon (1957, p. 204) to estimate "the joint probability distribution of sales over the next twelve month". Hume is also taken as a grand pioneer by catallactists (Buchanan and Tullock 1965, p. 314):

In this essay ['That Politics May Be Reduced to a Science'] he [Hume] states that the purpose or aim of the checks and controls provided by the political constitution should be that of making it 'the interest, even of bad men, to act for the public good'.

Spinoza rather than Wicksell is pre-eminent in the classic. Later on Wicksell is compensated by a simple recognition as "the primary precursor of modern public choice theory" (Buchanan 1985, p. 23). Better still, he is overcompensated and in the appropriate place, Stockholm, at a Regional Meeting of the Mt. Pelerin Society (*ibid.*, p. 179), "I propose to rely on the advice and counsel of the greatest of all Swedish economists, Knut Wicksell (and I am tempted to leave out the modifying word 'Swedish')" -- well, some over-enthusiasm is forgivable on ceremonial occasions... A similar statement is, of course, repeated in the Nobel ceremony (Buchanan 1987, pp. 243-4).

In the classic, Wicksell is given a low profile (Buchanan and Tullock 1965, pp. 8, 83, 197, 339). The last reference is in the appendices dedicated to the forerunners -- of course the appropriate section to put in --, and it gives to Wicksell a relatively modest position. It is true, however, that the importance of any kind of historical event is not only affected by the ideology and field of work of the appraiser (Schumpeter 1949, p. 346), but it is a dated variable. The latter is an obvious but usually forgotten fact.

The importance of an author is appraised in terms of the state-of-the-art as at a certain date, or within a definite time scale. So, viewed from the outside, Wicksell's contribution to the economics of the late fifties -- 1957, the year of the foundation of the Thomas Jefferson Center by Buchanan and Nutter -- seems less important than to that of the late eighties -- 1986, the year of the Nobel Prize award to Buchanan. As another example, the game theory has been undergoing resurgent and integrative waves since Kaysen's (1946-7) negative appraisal, and is now a basic text-book tool in the teaching of industrial organization -- see Tirole (1988).

Simon is cordially referred to in the classic. It is in a footnote where the reader is directed to his comparative work about the motivational assumptions in the constructs of economics and socio-psychological theories. It comes in support of a surprising statement, "a representative or typical man may, in fact, often switch gears when he moves from one realm of activity to another" (Buchanan and Tullock 1965, p. 21). The statement is also backed by a Knightian touch, "man is, indeed, a paradoxical animal". Together, the references constitute an answer to the "apparent paradox" that economics and politics adopt different concepts of man. But this answer is dismissed in two ways, one by a later "real explanation", which goes back to the limited government of the 1700s, and two by an earlier statement, "no one seems to have explored [the gear-switching] carefully" (*ibid.*, p. 20). At the end of the last chapter comes the equally clear and emphatic opposite statement, "A shift of activity from the market sector cannot in itself change the nature of man, the actor in both processes" (*ibid.*, p. 306)!

The reference to the "nature of man" suggests an understanding of man as basically selfish, in contrast to the previous acknowledgment of human complexity as discussed by Knight. In other words, **homo economicus** captures the essential nature of the human being, **homo economicus is all that matters**. This is also what can be understood by a reference to Spinoza's work (Buchanan and Tullock 1965, p. 313):

First of all, men are assumed to be motivated solely by considerations of interest. This is an underlying assumption of the models through which Spinoza examines alternative organizational arrangements. He states, quite specifically, that human behavior is taken as an empirical fact and that he makes no attempt to attach either praise or condemnation to the behavior he observes.

Note how "an assumption" quickly became "an empirical fact"... Here I must apologize for not going into the works of that "great thinker", and just follow Schumpeter (1986, pp. 126-7) in reproducing "a sentence of his which, though it refers to politics and ethics, every economist ought to be able to repeat on his death bed: 'I have sedulously tried to deal with the subject of this science with the same serene detachment to which we are accustomed in mathematics'". It is ironical that Schumpeter's only use of Spinoza came to be an admonition to economists, which the latter's current enthusiastic followers champion by disobeying. Returning to the nature of man by the revolutionary himself, my point is quite plain (Buchanan 1985, p. 119):

Constructive reform [of the US in the 1980s] is possible provided that the institutions of social order are so modified as to make them consistent with the **empirical realities** of modern man as he is rather than man as the naive reformers of decades past have hoped he might become. Institutional and constitutional reforms are not equivalent to behavioral reforms, and they need not depend critically on changing 'man's nature'.

Again, man's nature is its economic dimension, notwithstanding alternative perspectives, which are dismissed as naivety or romanticism. This reductionism comes associated with a quest for real world reforms, and the putting down of adversary-reformers. But this reductionism also appears in the circumventing of independent partner-reformers, as in the following necessarily longer quotation (Buchanan 1985, p. 58):

For those [romantics] who seek, through the design and implementation of new rules, to modify the essential nature of man, as this nature has evolved culturally through the ages, it is well that they be called up short by those who insist on the non-malleability of basic elements in human motivation and behavior [Hayek]. There remains nonetheless the danger that the evolutionist perspective, at the same time, will dampen enthusiasm for genuinely viable reform prospects that are consistent with man as we know him, and particularly on the part of social scientists and social philosophers who might, otherwise, tend to be broadly supportive of reform proposals advanced by modern constitutionalists (sic).

Let me first remark that **national politics** motivate this qualification of Hayek's position. I understand it as suggesting tactical moves for the success of political aims! Second, an evolutionary theorist must obviously maintain a dualistic model of man, "Man is as much a rule-following animal as a purpose-seeking one" (Hayek 1973, p. 11). In this respect, Hayek also conveys the flavor of the neo-Austrian school, and has nothing to do with the extreme reductionism involved in the above "man as we know him". Neo-Austrians are closer to institutionalists in their perceptions and constructs of man. The

institutionalist Simon somehow encapsulates the rule-following and the purpose-seeking dimensions of the personality in his "bounded rationality", and goes further by contrasting the latter with "irrationality" (Simon 1957, p. 200):

Fashion in the scientific explanation of man's behavior oscillates between theories that assign supremacy to his reason and those that give predominance to his passions. The synchronized push that Freud and Pareto gave to this pendulum... Clearly, a mature social science will have to accommodate both intellect and affect...

3 - THE WISHFUL FORERUNNER

The "Man as we know him" of Frank Knight has nothing to do with the catallactic perception either. Its most colorful representation appeared nearly forty years before the 1960-book which brings that "Knightian touch" quoted above -- the book is a collection of lectures delivered in the catallactic first heartland, the Thomas Jefferson Center, where Knight served as the Inaugural Distinguished Visiting Scholar. He seems to have been used by catallaxy in a kind of legitimizing or better dignifying role. This is an innovation of the sedition; Johnson did not detect anything similar either in the Keynesian or the monetarist movement. So, let me examine Knight's contrasting perception of human nature -- this will lead to establishing Knight's affinity with the institutionalists and will reinforce my accusation of reductionism in the vision shared by catallactists and Marxists. From the older source, a few typical passages will serve to illustrate my point (Knight 1936):

A man who has nothing to worry about immediately busies himself in creating something, gets into some absorbing game, falls in love... (p. 32).

we wish to do things because we can, or because we cannot; we crave companionship, of the right kind, but the requirement of privacy, even solitude, is equally imperative; we like the familiar, also the novel... (p. 30).

The fact patently is that when the biological form of motive conflicts with the cultural, aesthetic, or moral part of it -- as more or less it about always does -- it is the former which gives way (p. 27).

Life is not fundamentally a strive for ends, for satisfactions... the true achievement is the refinement and elevation of the plane of desire, the cultivation of taste. And let us reiterate that all this is true for the person acting, not simply to the outsider, philosophizing after the event (author's emphasis, pp. 22-3).

The references to Knight's latest book by the catallactists made me wonder about a possible change in his basic views, but I was happily proved wrong (Knight 1960):

History makes men, much more than men make history (p. 36).

One unique thing that man has is the capacity for history... culture (p. 44)... [Others are:] art, sense of beauty (p. 50)..., relation between art and religion (p. 51)..., reasoning power (not distinctive; hardly his predominant trait; supplies the means for action)... feelings (more distinctive; furnish the ends for action)... opinionated animal (his main use of reason is to find and give reasons for opinions reached on other grounds)... awareness of obeying law (but for many reasons... he is the law breaker of the universe)... quarreling animal (which explains the fall of civilizations)... homo sapiens (is it a compliment?)... (p. 52-5).

And this people [human beings] exemplify many kinds of entity. They are mechanisms in which the law of physics and chemistry holds good, animal organisms, and also individuals more or less free and intelligent. On the top of that they are, to a considerable extent, romantic, capricious, exploratory, and unpredictable (p. 68)...

If one behaves with perfect economic rationality he does not behave rationally as a human being... this is the verdict of common sense (p. 72).

True, it is possible to find other catallactic statements with Knight's perceptions, "Yes we know that... individuals are motivated by many considerations, and that individuals are far from being either well informed or rational in their political behavior" (Buchanan and Tullock 1965, p. 297). Curiously enough, these are asides, defensive stratagems or double-thinking perhaps. The prevalent view about human nature -- and I am not talking about theoretical constructs -- seems to be the opposite, namely the "realism" conveyed above, once also called "pessimism" (Buchanan and Tullock 1965, p. 266). It has nothing to do with Knight's perception. An irreverent analogy here would be that Knight is to catallaxy what Christ is to contemporary Christianity -- or "churchanity", as Knight (1960, p. 56) himself calls the latter. The irreverence may be waived, I hope, in view of statements like the following (Buchanan 1985, p. 3):

But I also note that both Warren Nutter and I had been converted [from 'libertarian-socialists'] into strong advocacy of the market organization of the economy, in my own case through a mere six-week exposure to ['my professor'] Frank Knight.

The analogy does not fit well with the understanding so far maintained -- the surreptitious use of Knight in order to legitimize catallaxy --, which is, in fact, an economic interpretation of the question. The analogy fits better with psychological interpretations, which are used widely, even by economists; the underlying basic assumption is found in Schumpeter (1986, p. 475), for instance, when talking about Mill and Marshall: "economists... may pay homage to a great name of the past in such way as to hide from themselves and others the full extent of the gulf that separates them from him"². Obviously, the two interpretations are not necessarily contradictory, but may be taken as complementary.

In the dispute *satisficing* versus *maximizing*, Knight (1936, p. 44) sounds more like a forerunner of Simon -- see Simon on Knight in the appendix:

It is a practical question: does the judging faculty actually work by reasoning out alternatives and deciding which is preferable, or does it not rather formulate ideals and compare actuality and potentiality with these, and with each other indirectly, by so comparing them with an ideal? No doubt both methods are used, and are useful; but we contend that with regard to the larger and higher questions, the ultimate problems of moral and social life, the formulation of ideals is a necessary step.

Here Knight is hinting at the problem of the applicability of theories, and at the same time teasing economists, catallactists in particular. Within this context, lower questions constitute most of what economics is used to deal with. Greater questions require ideals, and the formulation of ideals occurs with the passage of time; the requirement means specification of the irrevocable historical time, not only the reversible intervals of time (Georgescu-Roegen 1967, pp. 83-91). This is essentially what characterizes evolutionary theories, and it also explains Hayek's recognition of the rule-

following dimension of man's behavior.

Simon's administrative man has the "ideal" in his aspiration level, and the "potentiality" is apprehended through a process of search. When "actuality" falls below aspiration, the administrative man undertakes sequential searches for an acceptable alternative, and stops when this is found. The search process by itself may influence the aspiration, but the latter also depends on past achievements, and on the levels achieved by relevant reference individuals, among other factors (March and Simon 1959, pp. 47-50, 182-3). The construct is then compatible with historical and evolutionary approaches. On the other hand, maximizing and satisficing may be made equivalent in the long run equilibrium, as Simon himself states, and Hahn (1984, p. 2) among others confirms. To my knowledge, however, this has not yet been formally proved, so that one can see exactly what needs to be left out of consideration, in addition to the actual process of choice (Simon 1979, pp. 288-9) and, of course, to the passage of time (historical and evolutionary time).

Now, Buchanan's insistence on the "exorcism of maximizing" has nothing to do with satisficing; oddly enough, maximizing pervades all his reasoning, whether in his analytical works or political proposals. As for Simon's presence in the classic, it is a minor question for inquiry. In fact, that reference to the explanation of gear-switching may just be paying lip service, or the "politicking" of the scientist. Simon does not deal with that subject, at least where indicated.

There are however places where Simon should have been quoted, in the classic and elsewhere. For instance, a qualification would have appeared in the reduction of the "economic assumption" to its barest essentials, choose "more" rather than "less". The defense of its realism consists in affirming that no one has yet developed a theory from the opposite assumption, choose "less" rather than "more" (Buchanan and Tullock 1965, p. 18)! Even if one understands the persuasive nature of the paradigmatic debate, and in so doing accepts the "political" importance of taking "more" as if it is the only realistic assumption, the alternative, choose "enough" rather than "more" (or "less"), might have been conceded in a less important passage; for instance, (ibid., p. 29).

On the question of the applicability of theories, "the gulf that separates" Knight from the catallactists seems even more unbridgeable. Perhaps his position may be taken as "satisficing" by the institutionalists, as I shall attempt to elaborate below. Finally, my emphasis on the antagonism between Knight and the catallactists, and on his significant proximity to the institutionalists, should be qualified by Knight's (1960, p. 80) own words:

When I am with an orthodox economist who expounds all these economic principles as gospel, I am a rip-roaring institutionalist, and when I am talking to an institutionalist who claims the principles don't make any sense at all, I defend the system, the "orthodoxy" that is treated with so much contempt by the followers of Veblen and others who wear the institutionalist label.

And I wonder whether the following statement -- made, as was the previous one, in the heartland of catallaxy --, cannot also be taken as an admonition by the old professor to his more diligent but daring students, in the hope of avoiding the worst (ibid., p. 47):

If there is any nonsense that surpasses the contract theory of the origin of human society, I should like to have an example of it... Human society is far older than the individual, in the sense of a member of an

individualistic society... Men have become individuals, in our sense, in the course of recent history -- human nature and institutions evolving together... Culture was the first great emergent on the way, definitively on the way, to man.

4 - THE ULTIMATE PATERNITY: A SUSPICION

Are there any more forerunners of the public choice sedition? Yes, "Machiavelli himself is the father of all such models... [and] the Italian public-finance theorists and sociologists, who worked in the last part of the nineteenth century" (Buchanan 1985, p. 39). *Quousque tandem?* The reason why I ask this is because in addition to the number of forerunners there is a similarity to the monetarists -- namely, Fisher and the academic cultural bridge in Chicago's oral tradition! And Fisher stands alone as antecedent for the monetarists! It is true that the latter could easily have found as many forerunners as they wanted... And, in view of the peculiarities of the catallactic time-space environment, and in view of the dominance of the Keynesian-monetarist debate in particular, it is understandable that a mixed motley of forerunners can be found. What about Machiavelli's contemporary, Desiderius Erasmus? He synthesizes his criticism of society in his world masterpiece, *The Praise of Folly*, as follows (Erasmus 1979, p. 117):

In brief, wherever you turn, whether you are dealing with popes, judges, officeholders, friends, enemies, or anyone at all from the top of the social scale to the bottom, you can buy everything with money, and since the wiseman scorns money, it usually does its best to stay out of his way.

Let me comment on three points. First, there is no ambiguity about the end of action: it is money. Second, there is no gear-switching between the private and the public sector, but a very convenient one for the wise man. Third, the book conveys a conspiratorial flavor, which is somehow mitigated by humor and mastery of the art. On the first point, there is no ambiguity in the descendant either, if the following statement, in fact, represents his position (Buchanan 1985, p. 24):

If the analysis is to be made at all operational, specific arguments must be placed in the utility functions. Individuals must be modeled as seeking to further their own self-interest, narrowly defined in terms of measured net wealth positions, as predicted or expected.

A perfect Popperian posture! But, as it happens, the opposite and equally clear statement also occurs (Buchanan 1987, p. 337):

There is no need to assign net wealth or net income a dominating motivational influence on behavior in order to produce a fully operational economic theory of choice behavior, in market or political interaction.

On the second point, the alternative ultimate father is guilty only once, but the descendants keep being and not being everywhere: countless cases of contradiction, gear-switching, double-thinking, politics, compromise, etc.; my sample of these is extended elsewhere (Silveira 1989). This gear-switching or exception for the wise man, however, calls into question an embarrassing aspect of the catallactic sedition. About a century after the marginal revolution, or its Marshallian extension to the production process, marginalism is now extended to the government sector. And along with the latter, come attempts to cover all kinds of fields of human activity, but not as yet the sciences. I do not know, however, of any catallactist "scorning

money"... they would not be prepared to call themselves wise men, one hopes. "All from the top of the social scale to the bottom" are economic men, except the economic scientists! Should the "economic eunuch" of Kuhn's seminal evolutionary theory, or any other sociological alternative, be maintained? Why not after all extend catallaxy into the scientific sector even now?

Naturally, the first difficulty is that the analysis itself comes into question. The analysis becomes just a means of furthering the analyst's self-interest. This is a body blow to the most deeply held ideals of scientific work. The second difficulty may just be that the existing sociological interpretations do better when it comes to explaining the scientific sector, i.e. a gear-switching from economic to sociological man is consciously accepted as a second best or satisficing solution. That does not mean that scientists are "economic eunuchs", as catallactists would put it, but simply that economics as well as sociology are partial behavioral sciences, each one with its limited and precarious range of applicability. In this sense, gear-switching is not genuine contradiction, it is spurious contradiction.

The small economic dimension of the scientist's behavior, hopefully smaller than the politician's, does not seem to have a negligible influence, however, and may vary in time and space. So, the extension of catallaxy to cover the sector would be a step towards the understanding of that sector. Paraphrasing Simon, as quoted above, a mature social science will have to accommodate both economic and sociological dimensions, and more important (in my view) an affective dimension.

Hicks's (1980, pp. 208-9) vision of economics may be properly extended to the social sciences, and serve as an obvious foundation for my position: the complexity of the phenomena is such that the theories "are rays of light, which illuminate a part of the target, leaving the rest in the dark". The speed of change is such that "a theory which illumines the right things now may illumine the wrong things another time", and *mutatis mutandis*, let me add. One way to keep "our watch is by constructing more general theories", another is by deepening our knowledge of "the history of economics" and, let me add again, the other social sciences. And let me further add that the extension of existing partial theories may also be a way towards more general ones.

Welcome to catallaxy! I have provided an explanation of gear-switching together with accusations of such "faults" in the chief catallactists. I have praised Knight's apparently contradictory statements together with a deprecatory emphasis on the real contradictions of catallaxy. It is time of going to the root of the matter. In his discussion of the problems in the way of the Quantum Revolution, Heisenberg elaborates on the narrowness of classic logic, and the need for a quantum logic, using the former as a limiting case. The problem arises with concepts that do not satisfy the fundamental principle of contradiction (Heisenberg 1963, p. 156):

In classic logic it is assumed that, if a statement has any meaning at all, either the statement or the negation of the statement must be correct... *tertium non datur*, a third possibility does not exist... In quantum theory this law *tertium non datur* is to be modified.

Georgescu-Roegen conducts an analysis of the similar problem in economics. He defines as dialectic all concepts that fall outside the law *tertium non datur* (Georgescu-Roegen 1967, pp. 23-4):

we must accept that in certain instances at least, B is both A and non A is the case... Though they are not discretely distinct, dialectical concepts are nevertheless distinct. The difference is this. A penumbra

separates a dialectical concept from its opposite.

Take a practical problem, outside economics, that all free societies have to solve: that of deciding the voting age. Eighteen years may be the traditional response, probably evolving out of maturity considerations and the like. But seventeen and nineteen are equally good, and equally arbitrary with regard to those young people who are seventeen, or nineteen, on the day after the election. And the same arbitrariness pertains in the more liberal decision at fifteen, or in the more severe one at twenty-one. Looking further, fifteen seem severe to some premature young people, and *mutatis mutandis*.

There is an irremovable penumbra between young and old, whatever the dimension in question, which is not to say that one does not know what young or old clearly means, or that the distinction is meaningless -- albeit on the eve of becoming fifty, I could dream of a different kind of reality... On the voting age, it is out of the question to suggest five (or forty) or, even worse, to chop and change between five, eighteen or forty as circumstances demand, or for whatever reason. Obviously, the latter is a dialectic contradictory discourse, while the former, a consistent option for five (or forty) exemplifies outright bias or falsity.

"The world has an uncomfortable way of not permitting itself to be fitted into clean classifications" (March and Simon 1959, p. 1). The dialectic explanation in plain language is that penumbra where it exists should be maintained, and that reasoning should be conducted without disregard for the nebulosity with which reality presents itself. Discourse always takes into account the nebulous frontiers which surround the actual entities and their theoretical counterparts. The measures, the numbers, are orders of magnitude or dialectic intervals (Georgescu-Roegen 1967, p. 122):

In proper use, an index or an aggregate is not a fine bullet, but a piece of putty which covers a dialectical target, such as **the standard of living or the national product**, better than a bullet.

A voting age **must be fixed**. Its fixing, or its maintenance, at sixteen is a discretionary act, requiring apologies as any other inside the dialectic interval, some more, other less. It is an exercise in the degree of freedom still existent after the acceptance of maturity as the determining variable, and age as its loose dummy, or just the acceptance of the wisdom of the past, marginally modified or not by change of times. So, while the pure theoretical work demands an *esprit geometrique*, applied theoretical work, which I stress by calling it dialectic theoretical work, requires an *esprit de finesse* (Georgescu-Roegen 1967, pp. 28-9).

The complexity and the changing nature of economic phenomena render all economic concepts dialectic in different degrees. Thus all economic measures become "pieces of putty" of different sizes. The complexity and the changing nature of things put a limitation on logic and, as such, on abstract or pure theories in economics. The multiplicity of contemporaneous schools of thought, an undeniable fact at all times, is clear evidence of these limitations. But there is neither scope nor space for going into these major causal factors here, and Georgescu-Roegen's (1967, pp. 3-129) seminal analysis is quite up-to-date. Let me instead confine myself to this development of his work -- namely that the language of applied theories is dialectic (in the limited sense here understood) --, and finish by returning to Erasmus.

The third point, so far omitted, is the conspiratorial flavor conveyed by his book. The same applies to his rival's writings -- rival as the ultimate antecedent of the catallactists --, applies to such an extent that his name is

eponymous with what I mean: the Machiavellian flavor, of cunning, deceit, treachery, ..., the conspiratorial flavor. Conspiratorial is perhaps more applicable to the writings of the radical Marxists because they combine the flavor of treacherous behavior with that of individual impotence, which characterizes pure methodological holism. Kuhn's evolutionary account of science is an example of the latter, but it has no traces of the former. Catallactists provides one of the best examples of the former, but it has no traces of the latter.

In my interpretation, it is not only the "contradictions" but also this flavor which emanate from a one-track-mind treatment of reality, from attempts to apply directly extremely simplified and abstract theories or views. Such analyses do not take into account crucial aspects of the phenomenon, but are conducted as if they did. They suffer from the Ricardian Vice. Due account is not taken of the inevitably progressive division of scientific labor.

5 - A RICARDIAN PEDIGREE: THE VICE

Harris's discussion of mathematics in economics, particularly his series of quotations from Keynes, shows that they were aware of the above problem in abstract economics, of which there is a glimpse in the following partial reproduction (Harris 1954, p. 385):

Professor Plank, of Berlin, the famous originator of the Quantum Theory, once remarked to me that in early life he had thought of studying economics, but had found it too difficult! Professor Plank could easily master the whole corpus of mathematical economics in a few days. He did not mean that! But the amalgam of logic and intuition and the wide knowledge of facts, most of which are not precise, which is required for economic interpretation in its higher form is, quite truly, overwhelmingly difficult for those whose gift mainly consists in the power to imagine and pursue to their furthest points the implications and prior conditions of comparatively simple facts...

It seems possible that the following quotations from Knight could be taken as passages reasoned on the same lines. The main focus is on the limitations of men's/women's models in all the social sciences, and the need to keep them quite consciously in mind in any discussion of reality, "of society and its problems", i.e. in the applicability of abstract theories (Knight 1960):

The concept of economic man is valid and useful; it is fundamentally true that men behave economically, that is, as economic men, to an important degree. But also to a large extent they do not; their motivation is mixed; they behave in many other ways, even in part at the same time. The economic view of man is far from being the whole of human reality, or even an accurate description where it is valid as a partial, abstract view (p. 71).

two kinds of men -- the political man and the economic man -- who inhabit the same skin along with quite a number of other men of different kinds, largely incompatible, yet coexisting, and none of them to be ignored in the discussion of society and its problems (p. 65).

Now to say a little more about the unrealism of pure economic theory... All the sciences of man and society are involved if one presses the question [of social action, public choice, policy decision] further and further back -- particularly history, and possibly even more specially, ethics (p. 111).

Let me first observe that Knight excels in the *esprit de finesse* as well as in the *esprit geometrique*. Those who have developed or cultivated just the latter

are at a loss here, unable to understand Knight's "contradiction", "blab-blab exercise" or "loose talk". A second point is Knight's defense of the "validity and usefulness" of developing single-minded theories, whatever their degrees of abstraction -- a position strongly shared by Georgescu-Roegen --, leaving open to the "Planks" a whole field in economics, now overcrowded by mathematical economists. But it is clear that Knight takes these single-minded abstractions as a limited specialization, i.e. "Planks" should be satisfied with idealized economic realities only; outside these idealizations, the *esprit geometrique* is in fact no more than "loose talk", if I may so reverse the stigma -- and loose talking with possibly dangerous consequences for society and its problems.

Procustean actions result if they are seriously followed. Take particularly the last sentence of Knight's first passage: if in the physics of the post-Popperian stage one has to talk about provisional truth, in economics the appropriate expression is **provisional partial or half truth**. Economic abstract theories always disregard crucial and potentially dominant aspects of the phenomena. The corresponding conscious stance of the abstract economist then becomes informed by the popular maxim, "a half truth may be worse than the worst lie" -- Debreu (1983, p. 46) maintains the physicist's stance and seems perfect at those heights.

The catallactist's major problem is the Ricardian Vice. This is the urge to talk about reality directly, from a level of abstraction still higher than that of marginalism. This Ricardian pedigree is present in catallactic literature to an extreme degree, and the urge to participate -- see section (1) -- will doubtless account for most of this. By contrast, Knight, as shown in the last sequence of passages just quoted, is in the tradition of Mill and Senior (Schumpeter 1986, pp. 540-1):

Senior who was more explicit on the point than was anyone else, said indeed that the [abstract] economist's conclusions 'do not authorize him in adding a single syllable of advice'... They [Senior, Mill and others] merely meant that questions of economic policies always involve so many noneconomic elements that they should not be dealt with on the basis of purely economic considerations... one could only wish that the economists of that (or any) period had never forgotten this piece of wisdom -- had never been guilty of the Ricardian Vice.

Paying due attention to the structural, sociological, and psychological dimensions of the phenomenon is an institutionalist approach. For the abstract economist, it is an interdisciplinary facet which should not "be ignored in the discussion of society and its problems". This could be called Knight's change-of-optics requirement for applicability. But precedents point to Senior, who also made the first attempt to force economics into the hypothetical-deductive model (Schumpeter 1986, p. 484). And the importance of this matter calls for its elevation into a principle: I suggest the **Indetermination of Senior**³. The Ricardian Vice is the repeated circumvention of Senior's proposition by the addict.

The change-of-optics requirement is comparatively redundant in the case of applied economics, because many of the interdisciplinary factors form an integral part of the applied theories, they are already dialectically built in. On different directions, this may be exemplified by works of Kuznets, Simon and Georgescu-Roegen. Kuznets was a genuine applied scientist in his commitment to a realism which allows applicability: "Within the framework of these [Kuznets's far from abstract] models, regard is also paid to institutional and non-economic factors -- for example changes in population growth, in technology, in industrial structure and in market forms" (Ohlin

1972, p. 299). Simon's option for **satisficing** reflects his position on the indispensability of the **know-how**, a requirement for the applied scientist -- see in particular Simon (1979, p. 289). The following long quotation speaks for Georgescu-Roegen and contains an important testimony and touches on other aspects of obvious relevance here (Hicks 1976):

It is clearly his [Georgescu-Roegen] principle... It is a very simple principle: the irreversibility of time... (p. 135).

The two progenitors of the Austrian school were Menger and Bohm-Bawerk... What was it in Bohm that so annoyed Menger? I believe it is simply that in Menger time is uni-directional. Menger's theory [the beginnings of a theory] is an economics in time... the [Wicksell's version of Bohm's] theory became no more than a theory of stationary state... out of time... (p. 139).

I also mean that it [Stationary State economics] has encouraged economists to waste their time upon constructions that are often of great intellectual complexity but which are so much out of time, and out of history, as to be practically futile and indeed misleading... (p. 143).

It is clear that his [L. Lachman] view of me is like Menger's view of Bohm-Bawerk... His ideal economics is not so far away from my own ideal economics; but I regard it as a target set up in heaven. We cannot hope to reach it, we must just get as near to it as we can... (pp. 145-6).

One more salute -- to Georgescu... It is because I want to make economics more human that I want to make it more time-conscious... (p. 149).

The level of abstraction in marginalism is very high -- it suffices to say that it accounts only for the economic dimension of human behavior (see Knight's remarks above), and it is "out of time" (see Hicks above). The catallactic level of abstraction is still higher because of its extensive character. It is a question of the process of theorizing, and Pasinetti (1986, p. 415) recently provided a good testimony. He very realistically described the process in terms of the need for the progressive reduction of the basic elements in the theory, the "impious" omission of "whatever does not fit properly". The extensions or generalizations of theories inherently impose themselves. The extensions are made "by way of **shaping**, by a series of assumptions, the phenomena to be investigated in such a way as to make them suitable for the applications of the ready-made analytical tool" (*ibid.*, p. 420).

The best explanation that I can provide for the catallactic contradictions is the Ricardian Vice. From their theoretical heights, catallactists have the temerity to assume the role of professional economists, not that of applied economic scientists. And as **logic** is here the language of abstract economists and **dialectics** that of applied economists, the language of **advocacy** is that of the practice of professional economists. A quick glance at these latter. Pasinetti's (1986, p. 414) discussion of Galiani's *Della Moneta*, shows an extraordinary anticipation of elements of both theories of value, the interplay of demand and supply, Engel's law, etc.: "Carried away by our modern theories we tend to see contradictions among the various principles he has so remarkably anticipated". The same comment naturally applies to the works of previous moral philosophers (*ibid.*, p. 411):

They were not aiming at proposing theories. They were trying to state standards of ethical behavior and -- given this purpose -- it was not contradictory for them to try to set out, not one, but many separate arguments, provided that they all helped, in various cases and occasions, to achieve the final effect. Far from considering these various arguments as contradiction with one another, they regard them as enriching their discussions.

Let me compare with Galiani modern government or business economists who have graduated from good departments -- excluding here those biased pure neoclassical or Marxist strongholds. These economists are trying to inform government and business practice, and their effectiveness requires the eclecticism of Galiani and the moral philosophers. They do not need to anticipate the elements of those conflicting but internally consistent theories; that they get at school. Galiani's genius is no longer a requirement in the day to day work of the professional economist, and that is one important way in which theories, conflicting as they do, help society.

The professional economist gets additional training at work and he also learns from his sociologist, political scientist colleagues etc., and as well as from politicians or businessmen. Quoting from Lawson (1985, p. 916), "according to Keynes direct knowledge can be obtained through direct acquaintance with 'things, of various classes'... experience, understanding, and perception being three forms". In the writing of position papers, whether on policies or structures, abstract and applied economic scientists are assuming the role of modern Galianis, namely that of professional economists. So, many contradictions in their writings can be likewise dismissed. The difficulty is greater when normative advocacy discourse is mixed with positive abstract developments and all other "sciences of man and society" -- see Knight above -- are just ignored: such is the catallactist's case.

CONCLUSION

Knight's humanist perception of human nature contrasts sharply with the catallactist's "pessimistic" view. Knight's continuous awareness of the limitations of economic constructs in the discussion of reality shows the acceptance and practice of a major institutionalist dimension. As far as this aspect is concerned, catallactists and Marxists come together in their exclusive reliance on the economic motive, notwithstanding the different analytical units. When "higher questions" are at stake, Knight's view on the need to formulate ideals meets an operative form in Simon's *administrative man*, while the catallactist's concentration on the redistributive role of governments is a variant of the Marxist perspective. The catallactist longs to participate in political life and his understanding of academic work as a means of achieving political ends are again shared by the Marxist rank and file, notwithstanding their opposite goals; there are no traces of Knight in either.

Catallaxy is an economic interpretation of politics, as well as of marriage, religion, autobiography, etc. Catallactists could well have faced this fact, and so have kept the subtitle of their classic contribution. In passing, catallactists could also have recognized Erasmus in their very long list of forerunners -- given their problems, I wonder if *The Praise of Folly* would not have been a possible subtitle. Their recurrent references to Knight are misleading, and as such should be understood in the history of economic doctrines. Two reasons for this were given: a surreptitious attempt to legitimate catallaxy (an economic interpretation) and an attempt "to hide from themselves and others the full extent of the gulf that separates them from him" (a Schumpeterian psychological interpretation).

Economic phenomena display different degrees of complexity and change. Certainly, the "narrowness of classic logic" by far surpasses the case of quantum physics. Contradictions stand in the way of a straightforward use of logic in applied theories. The appropriate language is dialectic, dialectic in the limited sense of reasoning without disregard to the vagueness with which reality presents itself. Gear-switching is an intellectually unsatisfactory

way of "assembling" distinct constructs, or mutually inconsistent but internally consistent theories, either within economics or in the realm of the social sciences. Nevertheless, the same thing occurs in the natural sciences. Engineers do it all the time, the professionals using disconnected applied theories as they become available, applied theories developed by engineering scientists who may aspire, if half-heartedly, to scientific unity, but are prepared to switch gear in the pursuit of their first commitment to applicability.

Galiani's contradictions are not contradictions as far as the works of professional economists go. Plank's *esprit geometrique* has no Procrustean or disruptive consequences as far as abstract economics is concerned; quite the contrary, it is the most efficient way of operating at those heights, from the "left" as well as from the "right". The avoidance of looking down to reality is the difficulty. Knight's dualism has no inherent disruptive elements, vertigo does not exist for him who also has the ability to follow, at least partially, the institutionalist's precepts. The *esprit de finesse* is the requirement, and its cultivation means history, culture, social and philosophical culture in particular.

Catallactists engage in gear-switching, but condemn the same practice in others. The catallactist's extension of marginalism is a major achievement in the realm of pure or abstract economics, whose practitioners, like the physicists, maintain a first commitment to theory, to Occam's requirements. But the catallactist is addicted to the Ricardian Vice, he is unable to acknowledge what is here called the Indetermination of Senior: questions of economic policies and structures involve so many noneconomic elements that they should not be dealt with on the basis of purely economic considerations. Recalling the Schumpeterian urge-to-participate drive, one can understand the drama of the catallactic dualism -- it being Plank-Galiani, an *esprit geometrique* at a loss where practical affairs are at stake. By contrast, the Kuznets-Galliani economist may better perceive reality from his more reasonable heights.

Catallaxy is another tool in the marginalist box. Whether or not this box is a box of tricks, as in the alternative objective theory of value case, depends upon the predominance of the *esprit geometrique* outside the pure theoretical domain. Hopefully this is a passing problem of present day or, at least, this is not as permanent as Joan Robinson, later in her career, seems to have thought -- see Harcourt on Robinson (1989, forthcoming). To refresh the memory, box of tools is "Mrs. Robinson's unsurpassably felicitous phrase" (Schumpeter 1986, p. 15). Box of tricks is another one within the modifying context here developed.

Appendix: SIMON ON KNIGHT

I wrote to Professor Simon about my point on the dispute *satisficing versus maximizing* ("Knight sounds more like a forerunner of Simon"), and I also asked him about his professors of economics at the University of Chicago (his admiration by Knight was known to me from personal conversation). I am grateful for his attention, and I feel honored to reproduce below the appropriate passages of his answer:

I read *Risk, Uncertainty, and Profit* while I was at Chicago, but never took a course with Knight. (He and Viner alternated on the graduate theory course. I began it with Viner, but found him arrogant. He seemed to expend all his time questioning whether price depended on value or cost, whereas I had already learned from Walras that there were $2n$ variables and $2n$ equations and therefore this was a nonsense question. So, I left Viner's course.) My only

theory, then, was Henry Simons' intermediate course, which was very good for providing and practicing the tools of marginal analysis.

But back to Knight. I did fairly frequently meet him socially, specially on my return to Chicago in the 1940s, since we had a number of mutual friends in the Unitarian Church, and I became quite fond of him. Your quotes on section 3 characterized him quite vividly and accurately. He was very far from being a True Believer - in *laissez faire* or anything else. Rather, he was possessed of a thoroughgoing but pleasantly expressed skepticism. It was skepticism, not pessimism, for though he did not hold out any great hope that the social sciences knew how to improve the human condition, he also did not think that the world was going to Hell in a basket. I think his skepticism about social reform was often misinterpreted by the Chicagoans as a belief in the religion of *laissez faire*. That seems to me a gross misinterpretation of what he really believed. Your account is much closer to the mark.

Knight was probably not a major influence on my thinking prior to writing **Administrative Behavior**. You will find him cited favorably on page 74 (in expressing reservations about neoclassical theory), and on pages 250-52, where there is a part agreement, part disagreement on methodological issues. If I had to guess at an impact he might have had on me it was in reinforcing my belief that a theory of rationality had to deal not only with risk and uncertainty, in the usual senses, but also with the particular form of uncertainty which arises in the interaction of individuals with partially conflicting goals -- game-theoretical uncertainty. I would certainly not object to thinking of Frank Knight as a spiritual forebear.

FOOTNOTES

(1) These two papers were developed from a monograph written during the academic year 1988-9, when the author was on leave at the University of Cambridge. The book, **Economic Philosophy and Policy: the Brazilian Authoritarianism** (Silveira 1987), was freely used here. It is written in Portuguese, and it was in its final form in 1985, before my exposure to the works of the chief protagonists of the sedition; its first version underwent limited circulation before the end of the Brazilian dictatorship (Silveira, May 1984).

(2) A good reference for the Chicagoan community, particularly for Knight's peculiar situation, is Reder (1982, pp. 1-38).

(3) A reasonable treatment of Senior's proposition would require its updating along two lines of developments, the scientific ideology (Kuhn 1971) and the non-experimental nature of economics. And the latter would lead into the limitations of econometrics, or how they have evolved since Schumpeter's endorsement of the proposition in the late forties. There is neither scope nor space for that here. But this has been a recurrent theme in my writings -- Silveira (1974; 1980; 1983; 1984b; 1986; 1987). Just now, however, I am able to take due account of previously published work on the theme. To the remarks quoted above, Schumpeter adds that the discussion of positive and normative economics has become, since Cairnes, Sidgwick and Weber, associated with the problem of value judgments; this may be the main reason for its current neglect.

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