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**What Policies for Economic and Social Crises:  
Insights from Institutionalism, Keynesian Macroeconomics  
and Psychoanalysis**

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## Abstract

In this work we aim to outline a number of features of an interdisciplinary and pluralistic approach to the main economic and social problems of our time. As a suitable example of how an interdisciplinary cooperation can deal with these issues, we focus attention on the relations between institutional economics and psychoanalysis.

The work is organized as follows: in the first part which is based on the theoretical framework set up in a previous work<sup>1</sup>, we provide an outline of the main concepts of institutional economics, with particular attention to Veblen's and Commons's evolutionary and interdisciplinary perspectives. Then, we consider the main aspects of the psychoanalytic approach and how it can help understand the complexity of human feelings, motivations and conflicts within the related social and cultural domains.

In the second part, which is entirely new, we explore, also by employing significant concepts of Keynesian macroeconomics, how this perspective can help to devise adequate policies for addressing the major economic and social problems of today—in particular, poverty, economic and social imbalances, financial turmoils and sustainable development.

In this way, it is possible to cast more light also on the qualitative sides of development — which include economic insecurity, and inadequate participation in the workplace and in social and political spheres — and their multifarious links with the cultural and institutional frameworks of any considered context.

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<sup>1</sup> The work is “Institutionalism and Psychoanalysis: a Basis for Interdisciplinary Cooperation”, *International Journal of Pluralism and Economics Education* (IJPEE), vol.I, n.4, pp.372-387, 2010.

## First Part: The Institutional and Psychoanalytic Perspectives

### 1. The Institutional Economics' Perspective

#### Introduction

As is known, institutional economics originated in the United States in the first decades of the 20<sup>th</sup> century. Its cultural roots can be identified in the philosophy and psychology of Pragmatism — in particular in the theories of Charles Sanders Peirce, John Dewey and William James — and in the German historical school, whose principles were utilized by Richard T. Ely, who played a considerable influence on the formation of the first generation of institutionalists. The principal founders were Thorstein Veblen, John Rogers Commons, Wesley Clair Mitchell and Clarence Ayres. Relevant contributions were also provided by J. Fagg Foster, David Hamilton, Walton Hale Hamilton and Gardiner C. Means. Significant contributions to institutional economics were provided by, among many others, John Kenneth Galbraith, Fred Hirsch, Albert Hirschman, Gunnar Myrdal, Karl Polanyi and Michael Polanyi.

It is interesting to observe the significant links between the OIE and, among others, **(a)** the various strands of the “new economic sociology” and **(b)** a number of theories of technological innovation — often denoted as neo-Schumpeterian — which share many important concepts with the OIE, such as the importance of path-dependency processes and historical and cultural heritage in explaining the contextual characteristics of technology and innovation.

Two main strands of OIE can be identified: One, An approach relating to Veblen, stressing the dichotomy between ceremonial and instrumental institutions; the role of habits of thought and action; and the cumulative character of technology in its relations with the workmanship and parental bent instincts. Two, related to Commons, focusing on the evolutionary relations between economy, law and institutions; the nature of transactions and institutions; the role of conflicts of interest and of the social valuing associated with them; the nature and evolution of ownership, from a material notion to one “immaterial” of relations, duties and opportunities; and the role of negotiational psychology for understanding economic and social phenomena.

Notwithstanding some differences between these approaches, the elements of convergence are remarkable, for instance between the concept of ceremonial and

instrumental institution, on the one side, and the process of social valuing, on the other. Within this conceptual framework, institutional economics underscores that the presence of a collective context — with its values, norms, organizations, routines, customs and habits — constitutes a necessary factor for the performance of human action in the socio-economic setting. In fact, every economic action embodies, at the same time, also a social, institutional, historical and psychological dimension. Thus, a more complete understanding of the dynamics of economic action requires a joint analysis of all these dimensions which, for this reason, demands the adoption of an interdisciplinary approach.

### **1.1. The Links with the Philosophy and Psychology of Pragmatism**

Institutional economics shares significant aspects with the psychology and philosophy of Pragmatism. For instance, in numerous occasions Commons analyzed Dewey's theories and those of other pragmatist philosophers while, in turn, Dewey was influenced significantly by Commons's analysis of the increasing importance of organizations and institutions in modern life. The following passage from Commons clearly expresses the links between institutional economics and the different meanings of Pragmatism:

"In the discussion on Pragmatism)...We are compelled, therefore, to distinguish and use two meanings of pragmatism: Peirce's meaning of purely a method of scientific investigation, derived by him from the physical sciences but applicable also to economic transactions and concerns; and the meaning of the various social-philosophies assumed by the parties themselves who participate in these transactions. We therefore, under the latter meaning, follow most closely the social pragmatism of Dewey; while in our method of investigation we follow the pragmatism of Peirce. One is scientific pragmatism—a method of investigation—the other is the pragmatism of human beings—the subject-matter of the science of economics....Not until we reach John Dewey do we find Peirce expanded to ethics, and not until we reach institutional economics do we find it expanded to transactions, going concerns, and Reasonable Value" (Commons, 1934: 150-151, 155).

Thus, many of Veblen's and Commons's concepts could be jointly employed in the analysis of economic and social phenomena: for instance, Commons's concepts of institution, transaction, collective action, working rules, going concerns, reasonable value, ownership and negotiational psychology, underscore the conflicting and interdependent nature of collective action. These concepts comport with Veblen's analysis of the

dichotomy between the pecuniary and serviceability motives of economic action. Such motives find their roots in different propensities of the person which, in turn, can be weakened or reinforced by the habits of thought and action which shape the characteristics of the social structure.

And, relatedly, the concepts addressed by Veblen can elucidate the dynamics of human action — in particular, on the issues of work and participation, and the role played by habits and the cultural heritage embedded therein — and how they impinge on the structure of collective action as analyzed by Commons.

These concepts allow us to overcome the dichotomy, so often present in social sciences, between individual and collective action through a definition of collective action that embraces the individual and the collective element as two complementary aspects of every human action unfolding within a social context. Thus, instead of considering the person and society as two opposing entities, we have the motivations and actions — the "wills in action" — of persons which simultaneously assume an individual and collective dimension. This integrated vision of the dynamics of social action was reached through the study of the various forms of collective action in their various interrelations. Thus, in the most structured collective action — institutions — the concept of transaction in its three forms (bargaining, managerial, and rationing) enables us to understand the role of individual actions in determining the dynamics of its development and distinctive features. Meanwhile, in the most "individualistic" transactions, the concept of institution makes it clear that even the most isolated bargaining transaction reflects an expression of collective action in that its economic, legal, and social basis can be found in the existing institutions, which are defined as the combined whole of "collective action in restraint, liberation and expansion of individual action" Commons (1934, p. 73).

## 1.2 The Psychological Foundations of Institutional Economics

Veblen and Commons have developed important psychological oriented concepts, which can be employed in the investigation of the processes of social and cultural change.

### (I) Veblen's Theory of Instincts

Veblen, in his book *The Instinct of Workmanship and the State of the Industrial Arts* (1914), examines the role of two fundamental instincts<sup>2</sup> (or propensions): “workmanship” and “parental bent” in the characteristics of production and consumption. Both are defined broadly: “workmanship” meaning not only technical abilities but the whole set of manual and intellectual activities aimed at achieving a certain end; and “parental bent” meaning an inclination to look after the common good extending beyond the sphere of the family.

In Veblen's analysis, these propensions tend, under ideal<sup>3</sup> circumstances, to strengthen each other. This constitutes an important insight confirmed by studies in psychology and psychoanalysis, which stress the need for the person to enhance his or her intellectual, social, and emotional potential through the construction of adequate interpersonal relations. Veblen's analysis presents other pivotal observations regarding the relationship of “personification” established by the worker with work-tools when he or she ascribes to them anthropomorphic qualities.

Such insights open new horizons for research on worker motivation and participation: the “personification” of the relationship with one's work-tools, while shifting in meaning continuously over time, represents a distinctive feature of the psychology of the worker. Indeed, one reason why the worker tends to consider his or her work-tools as symbolic “co-workers” might derive from the fact that the worker's relationship with technology is something more than a simple “objective” and technical relationship since it also entails an emotional/relational involvement — a social relationship — which deeply influences his or her role and motivations in the workplace and in the social context. Consequently, the “personification” of the relationship with technology or with other aspects of collective life, far from being an expression of irrationality, is a necessary ingredient of social life.

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<sup>2</sup> One pivotal intuition of Veblen was that instincts constitute complex entities, which embody the intellectual and emotional spheres; so instincts can be considered synonymous with propensions.

<sup>3</sup> In Veblen's analysis, the extent to which these true propensions can prevail over other more aggressive and predatory ones depends on the prevailing habits of thought. Their nature and evolution, in turn, rest on many circumstances and, in these aspects, a comprehensive analysis of the complexity Veblen's thought would lead us to far from the main theme of the work.

Naturally, the content of this symbolic relation with technology is partly driven by the characteristics of the social context and, for this reason, is also determined by an inadequate expression of conflicts or distress on the part of the worker; but this holds true only for the content and, therefore, does not regard the process of “personification” as such.

## **(II) Commons’s Theory of Reasonable Value and Negotiational Psychology**

Commons also significantly contributed to the analysis of interrelations between economic and psychological factors in collective life; and was the most important founder of the theory of social value<sup>4</sup>. He elaborated the concept of reasonable value, which pinpoints the conflicting and context-specific nature of the process of social valuing, effectively elaborated in the following passage,

“The preceding sections of this book brought us to the problems of Public Policy and Social Utility. These are the same as the problems of Reasonable Value and Due Process of Law. The problem arises out of the three principles underlying all transactions: conflict, dependence and order. Each economic transaction is a process of joint valuation by participants, wherein each is moved by diversity of interests, by dependence upon the others, and by the working rules which, for the time being, require conformity of transactions to collective action. Hence, reasonable values are reasonable transactions, reasonable practices, and social utility, equivalent to public purpose....Reasonable Value is the evolutionary collective determination of what is reasonable in view of all changing political, moral, and economic circumstances and the personalities that arise therefrom to the Supreme bench” Commons (1934, p. 681, 683-684).

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<sup>4</sup> As is known, the theory of social value has a long tradition in the social sciences. The following passages effectively express the meaning of the concept of social value for institutional economics, “To conceive of a problem requires the perception of a difference between ‘what is going on’ and ‘what ought to go on’. Social value theory is logically and inescapably required to distinguish what ought to be from what is....In the real world, the provisioning process in all societies is organized through prescriptive and proscriptive institutional arrangements that correlate behaviour in the many facets and dimensions of the economic process. Fashioning, choosing among and assessing such institutional structure is the 'stuff and substance' of continuing discussions in deliberative bodies and in the community generally. The role of social value theory is to provide analyses of criteria in terms of which such choices are made" (Tool, in Hodgson, Samuels and Tool, 1994, pp. 406-407).



Reasonable value is by definition an imperfect process whose characteristics can be interpreted as the synthesis of the conflicting and evolutionary components of collective action. The imperfection of social valuing is also caused by its partly unconscious and conflicting character, often embedded in consolidated habits of thought and life. The social value process is the crux of the nature of political economy, which is considered not an activity stemming from the application of abstract laws but as a collective and evolutionary decision-making process involving many subjects and institutions. Thus, political economy has a close relation with law and ethics, "If the subject-matter of political economy is not individuals and nature's forces, but is human beings getting their living out of each other by mutual transfers of property rights, then it is to law and ethics that we look for the critical turning points of this human activity." (Commons, 1934, p. 57).

Commons, in *Institutional Economics, Its Place in Political Economy* (1934) expounded the concept of negotiational psychology, which aims to interpret the conflicts and dynamics of collective action as expressed through the complex web of transactions and institutions. Indeed, negotiational psychology involves the idea of conflict between different feelings and values, which find their manifold expressions in the dynamics of individual and collective action. The importance ascribed to social psychology appears in the following passages,

"If it be considered that, after all, it is the individual who is important, then the individual with whom we are dealing is the Institutionalized Mind. Individuals begin as babies....They meet each other, not as physiological bodies moved by glands, nor as "globules of desire" moved by pain and pleasure, similar to the forces of biological and animal nature, but as prepared more or less by habit, induced by the pressure of custom, to engage in those highly artificial transactions created by the collective human will....Every choice, on analysis, turns out to be a three-dimensional act, which — as may be observed in the issues brought out in disputes — is at one and the same time, a performance, an avoidance, and a forbearance....The psychology of transactions is the social psychology of negotiations and the transfers of ownership....Thus each endeavours to change the dimensions of the economic values to be transferred....This negotiational psychology takes three forms according to the three kinds of transactions: the psychology of persuasion, coercion, or duress in bargaining transactions; the psychology of command and obedience in managerial transactions; and the

psychology of pleading and argument in rationing transactions....Negotiation psychology is strictly a psychology of ideas, meanings, and customary units of measurement" (Commons, 1934, pp. 73-74, 88, 91, 106).

Hence, the individual and collective elements constitute two necessary aspects of collective action. This entails a shift of the analysis from a "person-to-nature" to a "person-to-person" relation,<sup>5</sup> with the related importance of an interdisciplinary approach for its understanding.

In this perspective, psychological sciences can contribute to a better comprehension of the ontological foundations of reasonable value in any given context, in particular its most problematic aspects, which tend to be grounded, implicitly and unconsciously, in deep-seated patterns of thought and action.

A joint application of the concepts elaborated by Veblen and Commons can help construct a systematic collaboration between institutional theories, psychology and psychoanalysis, especially in light of the increasing areas of convergence between psychological and social sciences (cf. also below).

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<sup>5</sup> These concepts allow Commons to develop important implications on the similarities and differences between institutional economics and Darwin's theory which, as is known, has had multifarious influences on social sciences. Commons observes that, "Natural selection, which is natural survival of the "fit," produces wolves, snakes, poisons, destructive microbes; but artificial selection converts wolves into dogs, nature's poisons into medicines, eliminates the wicked microbes, and multiplies the good microbes....And these transactions, since the principle of scarcity runs through them, have curious analogies to the factors which Darwin discovered in organisms. Custom, the repetition of transactions, is analogous to heredity; the duplication and multiplication of transactions arise from pressure of population; their variability is evident, and out of the variabilities come changes in customs and survival. But here the survival is the "artificial selection" of good customs and punishment of bad customs, and it is this artificiality, which is merely the human will in action, that converts mechanisms into machines, living organisms into institutionalized minds, and unorganized custom or habit into orderly transactions and going concerns." (Commons, 1934, pp. 636, 638).

## 2. The Psychoanalytic Approach: An Overview

### 2.1 What is Psychoanalysis?

Now, we discuss how collaboration between institutional economics and psychoanalysis can improve our understanding of economic and social phenomena. Psychoanalysis can be defined (cf., in particular, Freud, 1924 and 1933; Fenichel, 1945; Fine, 1979; Laplanche and Pontalis, 1967; Nagera, 1969) as a discipline,<sup>6</sup> founded by Sigmund Freud, characterized by a method of enquiry to explain the unconscious meaning of speech, actions and imaginative productions of a person. This method can be employed: **(i)** for the treatment of neurotic disturbances; in this case, it rests on the free associations of the person which constitute the basis for an open and tentative interpretation of the possible reasons lying behind such conflicts; and **(ii)** for the analysis of human activities in their social context for which free associations may not be available.

Psychoanalysis, then, from its very inception, has acquired a distinct social dimension. In fact, Freud considers individual and collective psychology as two complementary aspects of the same phenomenon—owing to the circumstance, stressed in particular in his *Group Psychology and the Analysis of the Ego* (1921), that in ancient times group life was preponderant and that only subsequently the person has gradually come to assume a more distinct role within the various groups of society. The concept of the *superego* represents the psychological instance through which cultural values are internalized by the child. For this reason, it constitutes a fundamental link between individual and collective psychology.

The *superego* arises from the internalization of the prohibitions and of the moral and cultural values — as perceived by the child — of the child's parents and also of later institutional figures such as teachers and other opinion leaders. The *superego* is mostly unconscious, in contrast to the *ego* which plays, chiefly at conscious level, the role of coordination and synthesis of the different instances of the mind.

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<sup>6</sup> We do not address the well known divergences in the early stage of psychoanalytic movement, resulting in the creation by some members of the former "Psychoanalytic Committee" — in particular, Alfred Adler and Carl Gustav Jung — of new psychological schools.

## 2.2 Main Developments

Freud's theory has been greatly extended to significant aspects of human development. A common threads of these studies is the importance of the role of affective relations in the dynamics of human action and motivation. Within this perspective, numerous studies have elucidated the manifold aspects of infantile development, in particular the child-mother relationship in the early stages of infancy. Contributions were made by Erik Erikson (1968), Anna Freud (1936), Heinz Hartmann (1964) and Melanie Klein (1964, 1975). These authors elucidated crucial aspects for a fuller understanding of human psychology. A. Freud, Hartmann and others underscored the structure of the *ego* as a mediating factor between instincts and society; while Erikson adopted these insights for analyzing the role of identity in the formation of personality. In his work, *Identity, Youth and Crisis*, he considers the concept of identity and its causal factors. Identity is regarded both as an individual and a social concept. Hence, the analysis of individual behavior requires studying the characteristics of the social setting in which individual action takes place; and, in addition, the important features of the individual mind stressed by psychoanalysis.

M. Klein<sup>7</sup> analyzed, from a new perspective, the mechanisms underlying the child-mother relationship in the early stages of infancy. Particularly relevant are the mechanisms of internalization, scission and projection, through which the child tries to cope with its ambivalence and aggressiveness towards the mother. Klein's theory sheds new light on many social phenomena by providing a deeper understanding of the conflicts that, while arising in the infantile development, may heavily impinge upon the type of relations adults establish within groups and institutions (cf. also the next sections).

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<sup>7</sup> We can recall the conflict occurred between Anna Freud and Melanie Klein on the role of *pre-Oedipal* stages of developments (the so-called *controversial discussions*). However, apart from these aspects, M. Klein's theory is in accordance with the basic concepts of Freudian framework.

## 2.3 The Object Relations Theories

Significant contributions — indicated as object relations theories even though it is difficult to identify for them a completely unitary framework — have been provided by the "Independent<sup>8</sup> Approach" (the former "Middle Group") in British psychoanalysis, including Michael Balint, John Bowlby, Marjorie Brierley, Ronald Fairbairn, J.C. Flugel, John Rickman, Ella Sharpe and Donald Winnicott. This approach has many parallels with the American contributions to this field — including Edith Jacobson, Heinz Kohut, Otto Kernberg, Hans Loewald, Margaret Mahler and Arnold Modell — and also with most of the "cultural psychoanalysts" quoted in the next section. These authors believe that the supposed contrast between instincts and object relations theories is for many aspects groundless as these theories are quite complementary to each other. These authors have adopted a more integrated view of the human personality, which more explicitly embraces its complex needs and propensions. The distinction between biological, affective and intellectual needs tends to be appraised as an expression of the various aspects constituting the human personality. On the basis of this approach, it seems reasonable to posit that human needs are complex and interrelated and, as a consequence, a child needs: **1)** to be fed and protected; **2)** to establish sound object and interpersonal relations; **3)** more generally, to develop in an integrated way all aspects of its personality.

In this perspective, psychoanalysis gives special attention to the issues of feminism and gender relations. However, the development of this potential has met with some difficulty. In fact, it has often been noted that Freud attached too much importance to the boy's perspective in developing his theories. This is partly true, but it is also true that Freud was the first scholar who fully investigated the profound psychological reasons which can hinder the full realization of the woman. These first insights have been elaborated by subsequent psychoanalysts, who stressed the role of equal opportunities between parents in order to ensure a sound family environment for the child. Among psychoanalysts, women provided relevant contributions to these and other related issues, including Anna Freud, Melanie Klein, Marjorie Brierley, Helen Deutsch, Karen Horney, Susan Isaacs, Edith Jacobson, Julia Kristeva, Margaret Mahler, Sylvia Payne, Joan Riviere, Hanna Segal, Ella Sharpe and Clara Thompson.

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<sup>8</sup> The common orientation of these authors is to employ, in a more flexible way, the conceptual apparatus of Sigmund Freud, Anna Freud and Melanie Klein in order to focus better the role of object and interpersonal relations in human life. For an analysis of the main aspects of this debate refer to, among others, Fine (1979), Greenberg and Mitchell (1983), Rayner (1991), Sandler and Dreher (1996), Tyson and Tyson (1990).

## 2.4 The Cultural Psychoanalysis

In relation to these issues, a strand of research has underscored the role of cultural forms in the study of the psychological evolution of society. Leading members of this group include Erich Fromm, Karen Horney, Harry Stack Sullivan and Clara Thompson. These authors investigated the structure and conflicts of contemporary societies and the role of interpersonal relations, with their related cultural values, in the formation of psychological disturbances.

An articulated debate, still in progress, arose between this group and the more “orthodox” psychoanalysts, and in 1956 some “Culturalists” (also referred to as the neo-Freudians) created a new institution, “The American Academy of Psychoanalysis”. These authors meritoriously brought to the fore the relation between culture and psychological disturbances. For instance, if society requires the person to pursue contradictory objectives — for instance, individual success based on egoistic quest for money and power, together with virtues of friendship and altruism — this may trigger a corresponding tension on the part of the person which is likely to reinforce his or her inner conflicts.

With regard to psychoanalytic theory, their common view is that Freud's perspective, owing to its emphasis on the role of biological instincts, rests on a universal and deterministic theory of human development which, therefore, cannot adequately incorporate the variety of cultural factors. But in Freudian theory the bodily aspects gain significance for psychological life on account of their symbolic connection with the emotional sphere: thus, one of the most important insights of psychoanalytic theory is that the intellectual, affective and biological aspects of personality are intertwined in the complexity of each person and unfold in every aspect of individual and collective behavior.

Even when one of these aspects is more pronounced, it does not mean that the others cease to operate, only that they work in the background, in a partly unconscious and indirect way that may nonetheless heavily impinge upon those elements appearing in the foreground. For instance, the act of feeding acquires importance for the child not only because it fulfills a biological need but also because it tends to be interpreted by the child as an expression of affection; and the child, through the elaboration of this and other symbolic connections, also expresses and develops its affective and intellectual potential. By considering the different social contexts in which these experiences are rooted, the surprising element is that, whereas cultures vary widely in the characteristics of their

eating habits, virtually all seem to attribute to them special significance in many family and social situations.

Hence, in Freud's theory, instincts constitute complex entities which embody the need for affection and the whole dynamics of emotional life. For this reason, his (continually evolving) theory of instincts, rooted in the dynamics of interpersonal relations, cannot show, for its very nature, any deterministic pattern but, on the contrary, can contribute to an explanation of the variety of cultural expressions.

This more comprehensive concept of instinct has significant parallels with Veblen's notion that "all instinctive action is teleological. It involves holding to a purpose", and also with important aspects of the philosophy and psychology of Pragmatism. In this sense, psychoanalysis, especially its more recent developments, is acquiring a more distinct evolutionary character (cf., in particular, Rayner, 1991, Sandler and Dreher, 1996). This implies that, as human personality<sup>9</sup> cannot unfold in a *vacuum*, analysis of the social context becomes more pertinent. For this reason, there is a growing collaboration between psychoanalysis and social sciences.

## 2.5 The Psychoanalysis of Groups and Institutions

The previous contributions highlight that persons have an intrinsic need of establishing sound interpersonal relations in order to express the various aspects of their personality. Group life acquires relevance for persons in that it allows, in a dynamic interaction, **(i)** to give and receive affect, **(ii)** to shape individual and social identity and **(iii)** to unfold learning and intellectual faculties. But, importantly for social analysis, a group<sup>10</sup> can also become a way for expressing predatory instances largely resting on neurotic conflicts. This happens not only in overtly aggressive and intolerant groups but also in more "ordinary" groups. In the latter instances, it is likely that positive and negative aspects are merged in a very tangled way.

But how can neurotic aspects be present, in various degrees, even in more altruistic groups? The basic reason is that human development is a highly complex process which is likely to involve, at various degrees, also trouble and difficulty. To begin with, birth itself, as stressed by Otto Rank, constitutes a trauma for the child. The child feels "fused and

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<sup>9</sup> These aspects have been underlined also by more eclectic psychoanalysts, and by many social and humanistic psychologists (cf., for instance, May, 1972, Maslow, 1971, Desjarlais et al. 1995, Nisbett and Ross, 1980, Pervin and John, 1997.)

<sup>10</sup> Central contributions to this analysis have been provided, in addition to the authors previously quoted, by Günter Ammon and Wilfred Bion.

identified" with the mother, and, hence, the subsequent process of differentiation and discover of another person, the father, is likely to engender complex relations of identification, but also of fear, rivalry and conflict. The child understands that it is no longer "at one" with the mother, and, therefore, that the parents may even "leave it aside" in their common life. Of course, the child loves its parents and needs their affection and protection but, at the same time, can desire to be "at one" with the mother or the father and so, on these grounds, may develop a feeling of a rivalry toward the parent of the opposite sex and also — in connection with its feeling of being "left aside" — of hostility and mistrust for both. This does not attenuate the variety of cultural expressions. Conversely, a better understanding of the needs and difficulties of human development can articulate the numerous ways through which cultural evolution takes place.

As noted by Freud (in particular, 1921) and by subsequent psychoanalysts, group cohesion tends to be based<sup>11</sup> on the following processes: **(i)** libidinal links<sup>12</sup> among the members of the group; **(ii)** projection of individual aggressiveness into people and/or institutions lying outside the group; **(iii)** identification with the group leader — who symbolizes the parental instance (typically, the father) — in order to repress the conflicts related to the *Oedipus* complex. These processes — which operate partly at an unconscious level and may be partly driven by neurotic conflicts — help explain the scission that often occurs within groups between "the good and right", lying inside the group, and "the bad and mistaken", lying outside.

These contributions emphasize the role of groups and institutions for expressing the needs and conflicts of the person. For instance, for the person, the group may represent an idealized *ego*; and, in this connection, its "morals" and "code of conduct" symbolize parental figures that, through a process of "internalization", play the role of *superego*. Thus, it is important to note that the *superego* stems from a normal human tendency to establish sound interpersonal relations; and accordingly, to behave with affection and solicitude towards each other and continually improve the positive aspects of personality. However, whereas in non-neurotic situations the "code of conduct" emerging from such tendencies asserts itself as a genuine behaviour, in neurotic situations leading to the formation of *superego* things can be quite different: here, the tendency of improving

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<sup>11</sup> This does not imply that Freud disregarded the positive aspects of group cohesion, only that he gave prominent attention to the problematic aspects of group dynamics.

<sup>12</sup> In accordance with the psychoanalytic interpretation, the term *libido* embraces also the spheres of emotional and affective relations.



personality tends to be, under an appearance of goodness and morality, subordinated to the expression of neurotic contents at cross-purposes with such tendency.

In particular, quite often the severity of *superego* leads — through the so-called paranoid and narcissistic transformation of personality, extensively studied in psychoanalysis — single individuals, groups or societies to do nasty and persecutory actions towards other individuals, groups or societies into which their aggressiveness has been projected, and so to sabotage, in the meaning reviewed before, the possibility of establishing sound interpersonal relations. These psychological processes can help to explain — and history is full of such instances — the neurotic roots of racism, xenophobia and other phenomena of exclusion and marginalization. As we will see later, these phenomena tend to be reinforced by economic and social crises.

The above discussion implies that, for a deeper understanding of these phenomena, in the study of these conflicts both individual and collective dimensions should be considered, whatever the particular focus of the analysis. For instance, in the study of individual conflicts, the characteristics of economic, social and cultural forms should be incorporated; whereas, in the study of collective forms, the psychological propensions of the individuals composing them should be investigated.

## **Second Part: What Policies Responses to Economic and Financial Crises?**

### **Introduction**

One of the aspects that renders this period of economic and financial crisis even more troublesome is the parallel crisis of ideas and policies as regards the solution for these problems. Being aware of this situation, we have tried to make a contribution towards building an interdisciplinary and pluralistic framework for the analysis of these issues. As a good example of the potential for an interdisciplinary collaboration, we have considered institutional economics (especially in the “old” tradition), Keynesian macroeconomics and psychoanalysis. On that account, we have organized the work around a number of important issues; in particular, the definition and role of the market, public and private action, and the role of policies.

### **3.1 Market, Capitalism, Socialism and Democracy**

We will address some elements of such issues by showing how institutional analysis can help us to define significant aspects of market, capitalism, socialism and democracy.

For instance, what has been the historical evolution of capitalism towards economic systems marked by a growing complexity of public intervention in the economy? And, with respect to the various conceptions of socialism, what are the criteria for evaluating "what is socialized" and through which institutional frameworks are the decisional processes in a hypothetical socialist society organized? If the socialization extends beyond income distribution, the central problem becomes that of ensuring an increasing participation in collective life: that is, of realizing increasingly complete forms of democracy. But how can we appraise whether these conditions are met in real situations?

The previous considerations directly bear on the role of the market and the forms of competition in social dynamics. This is perhaps one of the most controversial aspects in the debate on the various forms of socialism. In fact, as underlined in particular by the extensive literature on market socialism, the market is not necessarily associated with capitalism. In fact, in the opinions of many authors, market pre-existed capitalism and, consequently, can also exist in a socialist society.

The main problem in this debate is that the concepts involved are extremely complex and intertwined and can be interpreted differently according to the experiences and values of the different subjects. In fact, as we have tried to show, the market does not constitute an "exogenous mechanism" in relation to the goals and values of the subjects involved. But, rather, it is an institution that, with its relationships of "conflict", "dependence", and "order" — which are expressed, as noted above, in a complex system of juridical relations of rights, duties, liberties and exposures — evolves along with other institutions, thus contributing to identify the distinctive features of economic, social and cultural evolution in any given context.

In this respect, if we consider the alleged more free market-oriented productive sectors, we realize that, even in these instances, consumers' demand rarely constitute the sole criterion for the existence and development of these sectors.

Indeed, in the related policy action there often comes into play other goals which tend to involve numerous policies and institutions: for example, scientific and technological development, increase in employment, industrial restructuring, social and environmental impact. Moreover, these policies tend to have multifarious influences on consumers' demand.

This complexity tends also to be reflected in the increasing articulation of the ownership structures of companies, which mirror the presence of the various — "public" and "private" — interest groups involved<sup>13</sup>.

It is also worth noting that changes occurring in the market system directly impinge upon the forms of competition. In this sense, we can observe — without entering into the complex psychological and social implications<sup>14</sup> of the concept of competition — that competition does not constitute a static concept but evolves along with the transformations of economic and social organization.

In this regard, it is possible to highlight that the typical relations, which constitute the basis of liberistic thought, between:

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<sup>13</sup> It is important to note that also the notions of "public" and "private" are not absolute concepts but are created by, and evolve with, the set of norms, institutions and policies of any given context.

<sup>14</sup> As a matter of fact, competition arises not only in economic action. As widely investigated in psychology, psychoanalysis and sociology, forms of rivalry and competition, often associated with emotional problems, are likely to play a pivotal role in childhood during family and school experiences. Relatedly, social environment can also embody forms of competition among persons, groups, classes, institutions and nations based on values not directly economic-driven, such as influence, power and prestige. In this regard, also competition assumes a distinct "institutional" character. As effectively expressed by Commons, "Competition is not Nature's 'struggle for existence' but is an artificial arrangement supported by the moral, economic, and physical sanctions of collective action.", (Commons, 1934: 713).

## **Market ⇔ Private Property ⇔ Perfect Competition ⇔ Minimum of Public Intervention**

show little consistency in every considered relation. In fact, as already observed, the market is created and maintained by public interventions. As a consequence, its structure evolves also on the basis of the policies implemented and of the interest groups involved. In this sense, the “market” implies, on the part of the actors involved, a process of social valuing which, however, can be seriously impaired in situations where the negative aspects of market prevail.

Furthermore, it is important to remember that market relations certainly constitute one important way for expressing predatory attitude but by no means the only one. In this sense, predatory behaviour can be present also in non-market relations and, in this regard, human history is full of these instances. Thus, the fundamental problem becomes to understand the psychological reasons and problems underlying predatory relations in their connections with the economic, social and cultural structure.

Likewise, the market does not constitute the sole instance for expressing personal initiative. In fact, on the one side, market can be compatible with a socialist society; and, on the other side, personal initiative can unfold very well in public administration providing that the related organization is flexible enough for allowing a real involvement of the workers in its activities. As shown in Commons's analysis and, within a different context, by the literature on quasi-markets, forms of transactions and competition can exist in any kind of public institution.

In this sense, private property does not even constitute a necessary condition for the existence of competition. For instance, there can be the case of a private monopoly or collusive oligopoly, in which there is no real competition, and, by contrast, public units competing each other for the attainment of some defined set of objectives.

In this regard, it is interesting to note that the more harmful effects of market relations tend to be more pronounced in the international domain. In fact, as stressed in particular by the literature on economic development and the “unequal exchange”, it is through the internationalization of production and consumption that the worst forms of exploitation are likely to occur. This tends to happen not only because a cultural and political rivalry is often injected in such competition, but also for the reason that such competition — unlike national situations, where in most cases economic competition is regulated and “concerted” in many respects through legislative and contractual provisions — tends to be almost completely unregulated in the “globalized” world. True, there are important

initiatives for promoting fair trade but they have not yet taken a strong foothold in developing and emerging economies.

### **3.2 Public Expenditure and Credit Creation as the Drivers of Aggregate Profit**

These remarks allow us to consider more in depth the role of public intervention. A first remark coming to the fore can be summarized in this way: although such intervention is necessary for building a socialist system, this does not imply that every public intervention should be automatically considered a headway towards such objective.

On the one hand, public action constitutes an essential ingredient for the existence of capitalistic institutions; and, on the other, in a socialist society not every public intervention can be automatically considered — only because it is public — progressist or socialist. This happens especially when such intervention acquires an authoritarian nature and, on that account, allows scant social participation.

In this respect, as well highlighted by Marx, Engels and other socialist thinkers, socialism and communism should not be appraised as “steady states”, similar to heaven, in which everything is perfect, but as historical processes that require for their advancement a growing participation of all the subjects involved.

This participation tends to become even more important on account of the tendency — already expounded by Hilferding in the 1920’s through the concept of “organized capitalism” — of concentration of economic power in few dominant companies.

However, as vividly witnessed by recent events, such concentration of power does not eliminate the structural tendency towards economic and financial crises; rather, owing to the mostly unregulated competition taking place in the international arena, the “organized capitalism” tends to increase the instability of the system. Furthermore, and along with these processes, there are a number of capitalistic contradictions, which now we try to address briefly.

As is known, capital, especially in its monetary form, is highly flexible and mobile. At the same time, however, capital, especially in its immaterial and organizational dimensions, is highly national, institutionalised and localised.

It is for this reason that it acquires so much importance for competitive advantage of firms the accumulation of tacit competencies within the “national systems of research and innovation”, extensively studied in the theories of technological progress. These systems, of course, can take, at the same time, also a supranational, regional and local dimension.

In the evolution of these systems, a pivotal role is played by the characteristics of the institutional framework, which displays its effects through many interrelated policies—for instance, macroeconomic, competition, industrial, innovation, social, environmental. In this way, a “forced” socialization of the system — as well expounded by Fred Hirsch in his *Social Limits to Growth* — thus develops.

### 3.3 Some Macroeconomic Implications

Let us consider, as a pertinent example, some macroeconomic effects of public spending and credit creation. As can be inferred in particular by Keynesian theories, these elements become vital for generating the aggregate profit for private firms (the same applies for State-owned firms but we can skip, for the sake of simplicity, this example).

In this regard, it is interesting to note that, in the absence of such policies, no significant aggregate profit<sup>15</sup> would be possible for such firms.

As a matter of fact, labour cost constitutes an aggregate cost for the system of firms. This cost can be brought to zero if employees spend all their earnings but can never become a source of profit. But, very interestingly, not even the entrepreneurs’ investment expenses can create an aggregate profit for the firms as a whole. In such case, in fact, to the profit of an entrepreneur must correspond the expense of another, so that the net result for the firms would be zero.

As a consequence, the aggregate profit must derive from sources external to the system of firms: these sources — not considering, for the sake of simplicity, international trade whose balance<sup>16</sup> is zero at world-level — take two interrelated forms: public spending and credit creation. We can express these relations in the following way:

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<sup>15</sup> In this analysis, we are well aware of the risk of simplification related to mathematical treatment of important economic and social concepts. By the expression aggregate profits we mean an amount of profit which exceeds the “normal” incomes of all the workers engaged in the private sector, including the so-called executive-salaries. Needless to say, aggregate profits can be present also in a hypothetical pure private economy, but in this case it is difficult that they acquire the nature of the extra-profits typical of expansionary period driven by public spending and credit creation. As a matter of fact, in a “pure private economy”, the income differences between workers find a limit in the principle of the effective demand. For instance, if the entrepreneurs want to increase their profits by reducing real wages, they must also make up for the reduction in the effective demand caused by wages reduction. In a private economy, as investment goods are intrinsically related to consumption goods (cf. also below) the only available way for increasing the effective demand is to attain a higher level of the entrepreneurs’ consumption. However, this process finds many limitations, especially in the presence of scale-economies associated with mass consumption.

It is important to underscore that all these economic relations embody, at the same time, also a social, cultural and psychological aspect, the study of which becomes paramount for a full understanding of the real features and problems of these contexts.

<sup>16</sup> Needless to say, this is a gross simplification: in fact, as well evidenced by the theories of unequal exchange, the total effects of international trade tend to adversely affect the weaker countries.

$$1. \quad \mathbf{P} = \mathbf{a}\mathbf{m}\mathbf{G} + \mathbf{b}\mathbf{m}\mathbf{CD} + (1 - \mathbf{a})\mathbf{m}\mathbf{G} + (1 - \mathbf{b})\mathbf{m}\mathbf{CD} + \mathbf{C}_p + \mathbf{I}_p - \mathbf{L}$$

where **P** denotes the aggregate profit for the system of private<sup>17</sup> firms, **G** public spending<sup>18</sup> and **CD** the amount of aggregate demand generated by credit creation, **L** the sum of “labour” incomes, including the “executive salaries”, **m** the value of multiplier, **a** and **b**, and **(1 - a)** and **(1 - b)** the ratios of the aggregate demand generated by public spending and credit creation accruing to private profits and to labour incomes, **C<sub>p</sub> + I<sub>p</sub>** the sum of consumption and investment originated in the private sector. **CD** indicates that, in a monetary economy, credit is created through the provision of new purchasing power (e.g., of money creation) made available to borrowers. In this context, **P** constitutes a fraction of the aggregate income, expressed by the familiar identities:

$$2. \quad \mathbf{Y} \equiv \mathbf{C} + \mathbf{I} + \mathbf{G}$$

$$3. \quad \mathbf{C} + \mathbf{S} \equiv \mathbf{Y} \equiv \mathbf{C} + \mathbf{I} + \mathbf{G}$$

Assuming that gross private income is distributed between profits, and wages and salaries, the above identities can be expressed as:

$$4. \quad \mathbf{P} + \mathbf{L} \equiv \mathbf{C} + \mathbf{I} + \mathbf{G} \equiv \mathbf{a}\mathbf{m}\mathbf{G} + \mathbf{b}\mathbf{m}\mathbf{CD} + (1 - \mathbf{a})\mathbf{m}\mathbf{G} + (1 - \mathbf{b})\mathbf{m}\mathbf{CD} + \mathbf{C}_p + \mathbf{I}_p$$

Now, considering a “pure system” of private agents, we obtain that:

$$5. \quad \mathbf{P} + \mathbf{L} \equiv \mathbf{C}_p + \mathbf{I}_p \equiv \mathbf{C} + \mathbf{I}$$

such identity implies that in a private system, without public spending and credit creation, the sum of consumption and investment tends to be equal to wages and salaries and, therefore, there is little room for aggregate profit, in the meaning described above. In fact, in this system it is easy to note that the firms of consumption sector are at loss in respect to the firms of investment sector. In order to equalize the balance, it is necessary that the incomes of investment sector be spent in the consumption sector.

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<sup>17</sup> Also in this case reality is much more complex as the growing complexity of the system implies a parallel articulation of the structure of ownership of the firms, with the presence, in many cases, of many “mixed” forms. In this regard, it is interesting to note that the above analysis will apply also to the case of state-owned enterprises, provided be they organized as administratively independent bodies.

<sup>18</sup> We suppose that public spending chiefly accrues to consumption, and in an indirect way to investment.

However, even in the absence of net profits, one could argue, a situation of full employment could be reached, provided that the investment sector can grow large enough to employ all the labour force. But this enlargement finds a limit in the circumstance that the amount of investment is functional to the amount of consumption goods that firms plan to produce which, in turn, depend on the available income of the labour force. We can represent this situation with the general equation:

6. 
$$C = f(I)$$

we define this equation general to imply that, in order to produce a given amount of consumption goods, many productive ways are possible. This circumstance, of course, does not imply at all the perfect flexibility of productive factors postulated by neoclassical economics. Quite the contrary, this formulation takes into account that any kind of productive process — with their present and prospective techniques — is highly evolutionary and path-dependent as it is fully ingrained in the complexity of the social and cultural context.

An important implication of this analysis is that a “perfect” private economy is a pure utopia in the modern world. Such an economy, in allowing little growth, little innovation and little change, tends to be similar to the steady state familiar in economics textbooks. Such economy can be compatible only with very simple economic systems, based on vicinity and direct personal relations. But, as soon as such system starts growing, the role of public sector becomes paramount. Both public spending and credit creation originate from public intervention. This is evident for public spending, but also for credit creation the role of public sector is no less important. In fact, public sector (meant in broad sense and then including also the Central Bank) plays an exceedingly pivotal role in creating and guaranteeing the value of money. The reason why we accept banknotes of intrinsic minimal value is that we are fairly confident that their real purchasing power is monitored and guaranteed by public action. In this sense, as pointed many authors, money is a highly institutional phenomenon.

Public spending and credit creation can accrue to aggregate profit in numerous ways: for public spending, in particular, **(i)** classic multiplier effects related to public consumption, public investment and civil servants’ incomes; and **(ii)** subsidies and incentives to firms, which can accrue to both firms’ consumption and investment expenses. And, for credit



creation, the various types of consumer credit and production credit, which also combine to shape the level and forms of public spending.

On the basis of this analysis, it appears clearly that the *crowding out* effect of public spending — which constitutes one of tenet of mainstream theory — can display, if any, only a limited effect in our economies. As we have tried to show, in a “pure private economy” aggregate profits are unlikely to be very high. Public spending and credit creation play the fundamental role of pushing the growth of the system, also because they contribute to create an important part of the aggregate demand, which accrues to the private sector.

For instance, decreasing values of the parameters **a** and **b** demand a higher level of public spending and/or credit creation in order to ensure the same level of aggregate profit. Indeed, the structural tendencies of modern economies seem to point in that direction, namely, an increasing difficulty of public spending and credit policies “to generate” aggregate profits. These tendencies — which would demand a much deeper examination based on the available data — are not deterministic in nature, but reflect the multiple linkages intervening between economic, social and cultural evolution.

In this regard, it can also be interesting to note that these conclusions hold true whatever be the elasticity<sup>19</sup> to prices of the aggregate supply function. Of course, a careful analysis should be based on the available data disaggregated among economic sectors. As a general remark, we believe that the aggregate supply function is in most cases elastic enough in the short run, and also in the middle-long run, due to the effects of technological progress.

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<sup>19</sup> It can be worth note that the classic hypothesis of vertical aggregate supply curve, corresponding to full employment, in which there is perfect flexibility of prices and wages, is quite unrealistic for a host of reasons: (i) full employment is hard to realize (and to define as well) not because of too high wages but owing to an insufficient level of aggregate demand; (ii) technological progress can contribute, in a complex way, both to the rise of the unemployment and to the shifting of the aggregate supply function; (iii) the role of expectations, which makes the distinction between short run and long run more blurred; (iv) the phenomenon of sticky prices, which do not depend only on “market imperfections but are often needed in order to provide the system with a minimum of stability and reliability: if everything were wild flexible, no stable economic and social life would be possible. (v) Also for this reason, the decision to change prices necessitates some planning activities in order to foreshadow the possible consequences. As this activity should be made in advance, it constitutes a good explanation, set forth in particular by the theory of “small menu costs”, of the reason why firms do not quickly modify their prices even when it would seem more profitable to do so. (vi) The same phenomenon has been observed in labour markets, where both firms and workers prefer to negotiate long-term contracts.

As can easily be seen, all these relations do not take place in a *vacuum* but are heavily embedded in the social and cultural domain. An interdisciplinary approach can help to look more deeply into the microfoundations of the macroeconomic aggregates.

It can also be interesting to note that many of these issues have already been investigated by Commons in his enquiry into the emergence of unions and labour contracts in the USA (cf. in particular the essays contained in *Labor and Administration*, 1913), where he stresses the importance of ensuring reliable contractual relations in order to reduce the uncertainty and the transactions costs associated with it.

### 3.4 Some Implications for Capital Accumulation in a Monetary Economy

At macroeconomic level, the continual need of public spending and credit creation for ensuring an adequate level of aggregate profit engenders many contradictions, which tend to become more and more unmanageable.

First, public spending needs to be financed, in the long run, by direct and indirect taxation. In fact, there has been, since the inception of the industrial revolution, a rather stable increase of public spending, both in nominal and real terms, also because of (cf. also above) the progressive difficulty of public spending “to generate” aggregate profit. Hence, the reason for this tendency does not reside in an alleged inefficient and lobbistic nature of public intervention<sup>20</sup> — even if, of course, these aspects can play a role in these dynamics — but in the necessity to manage the growing contradictions of the system.

For instance, there is a macroscopic and disruptive contradiction — which has paved the way for the eruption of the present-day economic and financial crisis — between **(i)** most credit policies, which aim to increase, also through well organized advertisement strategies, persons’ spending capacity well beyond their real earnings; and **(ii)** business strategies which, in order to gain “competitiveness”, tend to reduce employees’ incomes and work conditions to a minimum. Under these growing burdens, personal bankrupt is likely to arise, with the spreading of all its negative consequences on the whole system.

In this way, it becomes possible to look more deeply into the relations of accumulation in a monetary economy, which is expressed by the relations  $\mathbf{M} \rightarrow \mathbf{C} \rightarrow \mathbf{M}'$ . It means that, in a capitalistic economy, all economic transactions are, at the same time, monetary transactions, and hence, for a growing economy this implies, for the same level of prices, a continual accrual of the stock of circulating money.

As is known, this formulation was proposed by Marx and then was employed by Keynes and many other scholars. In this sense, it represents one of a cornerstone of economic theory. However, that concept, however important, is a bit generic, in that many factors are at play in determining the course of the specific situation and, also for this reason, it can be accommodated within different theoretical conceptions of the working of economic system. In order to provide with more precise contents the theoretical and empirical analysis of these aspects, a careful study of (among others) the evolutionary characteristics of following factors in the specific situation is highly needed: labour and goods markets, the

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<sup>20</sup> As is known, these aspects have been underlined in particular, in the mainstream domain, by public choice’s contributions. The limitations of these studies lie in the circumstance that they tend to consider public spending only as a negative phenomenon—a kind of unwelcome departure from the perfect world of mainstream hypotheses.

(institutionally-based) “mechanisms” of prices and salaries formation, firms’ organization, industrial structure, and any other relevant aspect of the social, legal, policy and institutional framework. Along this way, it is possible to get a closer insight into the profound interrelations between different policies — for instance, competition, industrial, science and innovation, environmental, social, macroeconomic.

An approach of this kind should involve a closer collaboration between institutionalism, Keynesian Macroeconomics, psychology and psychoanalysis.

### **3.5 The Difficulty of Devising Alternative Paradigms: A Psychoanalytic Interpretation**

In this situation, a vicious circle tends to arise: as a result of the structural tendency towards increase in public spending, it is gained ground the opinion, even across various sectors of the progressist domain, that the only remedy to the present crises consists in a progressive reduction of public spending and public deficit. Needless to say, these targets<sup>21</sup> are quite different, but in the conventional wisdom, and also in the unconscious perception, they tend to be equalized. The basic and widespread perception is that public spending is anyway “too high” and so must be reduced at any cost.

In these situations, in fact, in which the only faith in economic progress rests on a kind of a wild and unregulated competition, the market tends to be psychologically perceived as an inflexible and punitive *superego*. In that vision, the only possible thing we should do is to comply with the “needs of the market”, without any further enquiry on the adequacy of the system to respond to the profound needs of economy and society. For instance, are we sure that the continual reduction of the employees’ incomes and welfare provisions will really help to sort the problems out? Our impression, instead, is that these measures are likely to worsen a vicious circle of economic and social crises, most often accompanied by an increase — as we have seen before, mostly neurotic-driven — of xenophobia, intolerance, prejudice, localism and disruptive rivalry<sup>22</sup> in the international relations.

In order to better understand these complex phenomena, an enquiry into how people tend to perceive market phenomena becomes paramount: for instance, if, as just noted, market is perceived as an inflexible and punitive *superego* this implies that persons try to repress

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<sup>21</sup> As a matter of fact, public budget deficit can be reduced not only by cutting expenses but also by increasing taxation.

<sup>22</sup> It can be interesting to note that these aspects have been highlighted also by Veblen in his historical reconstruction of the emergence of modern nation-states. In this sense, as also shown in another work (Hermann, 2009b) there is a promising area of convergence between institutional theories, psychology and psychoanalysis.

their neurotic aggressiveness, which, however, can find expression in the marketplace in a more or less disguised way.

In this regard, a psychoanalytical interpretation can cast new light on the unconscious reasons lying behind the need of reducing public spending: such need may refer to the child's desire of possessing its mother's good breast and milk and to the feeling of guilt that often arise in relation to such a desire. As well expounded by the contributions of Sigmund Freud, Melanie Klein and many others, the child, in its early relations with the mother, is likely to experience complex feelings — which can include anger, ambivalence and frustration — related to its desire of being nourished and protected.

For all these reasons, the attempts to reduce public spending are unlikely to really improve the situation. Conversely, these attempts tend, by affecting the many incomes depending (directly or indirectly) on public spending, to exacerbate economic and social problems.

### **3.6 A (Supposed) Lack of Alternative Theories**

This leads us to the following fundamental questions: is the level of social participation in collective issues satisfactory? If not, for what reasons? And what can we do to help the situation?

As with the first question, a first observation is that in public opinion the level of real comprehension of economic and social issues tends to be rather poor. But, what do we mean by the expression “lack of real comprehension”?

Let us consider, for instance, financial speculation. It is well known that the sources of this speculation originate from the large capacity of credit creation of big banks and corporations. They often act through a concerted action which, if carried out to an extensive scale, can put in danger the social and economic fabric of a whole nation. Also, many of these speculative attacks are backed by the opinions of rating agencies and supranational institutions, which are not precisely heterodox oriented. In this way, one can well suspect that Countries which do not follow the (mainstream) policy prescriptions of these institutions are more in danger of being “punished” by financial speculation. However, in spite of the (at least circumstantial) evidence of these facts, the critical analysis of these relations is heavily missing in public debate and even in street protests. For instance, when a Government, as a result of a speculative attack, applies a drastic cut of public expenditure in order to keep the public budget “in order”, all the protests tend to be directed only towards the direct effects of these measures. True, many protesters

would uphold very different systems, such as socialism or communism. The problem, however, is that when confronted with the policy measures that needs to be taken here and now in order to address seriously the problems at the stake there is a lack — short of triggering an unlikely revolutionary process — of viable alternative proposals to mainstream oriented policies. Even when there alternative proposals on specific aspects, what is generally missing is the capacity to think in terms of alternative theoretical and policy paradigms. In this sense, the arguments of the protesters and of progressist public opinion rarely square the heart of the question: why should we allow such a speculation? Should we consider such disruptive speculation as a free play of market forces or as a criminal activity made possible within a definite set of institutional and legal framework? What are the profound reasons of the steadily increase of public spending?

These questions converge towards the basic fundamental theme: why has it occurred over time a steady deterioration of relevant aspects of the quality of life—for instance, difficulty to find and retain a motivating job, lack of participation, uneven distribution of income and environmental decay?

In the analysis of these problems, even within the progressist domain, few alternatives are left open: in fact, as the policy of “public spending” is associated with the theory of John Maynard Keynes and, as this theory is almost unanimously considered to have been a failure, the survived theories<sup>23</sup> are mainstream economics and Marxism. Of course, we cannot agree with none of these points.

First, as we have tried to show, public spending is the “fuel” of capitalistic growth and Keynes was the first scholar to expound in detail this aspect. But Keynes was not a superficial advocate of public spending as he was well aware of the many contradictions of the capitalistic system. In this sense, as well illustrated in *Essays in Persuasion*, his policy

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<sup>23</sup> We are well aware that this kind of analysis is open to the following objections: (i) what do we mean by mainstream economics or by Marxism? Whatever the answer, our interlocutor would promptly say that our definition is not precise because does not consider this and that element, and so on and so forth; (ii) in considering a given set of mainstream oriented policy measures, the interlocutor would be ready to say that these measures cannot be considered “pure mainstream” as they contain also elements of other theories, and so on and forth.

In this regard, we believe that both these objections are true but hit little on our line of reasoning: as to the former, it suffice us to define mainstream economics as broadly corresponding to neoclassical economics which, as is known, is based on the following principles: independent economic agents tending to maximize their production or utility functions in the marketplace, which ensures — in a self-sustaining way and hence with no (or, by all means, a very minimum) aid on the part of public institutions — the coordination of their otherwise independent actions. As to the latter, the objection is even more true but goes to reinforce our argument: in fact, it is easy to observe that many “mainstream policies” contain in a disguised way, for instance, many Keynesian elements. But this happens not because policy makers are unwilling to pursue mainstream policies but because, as we are trying to show, the contradictions of the system require the adoption of different policies. However, as there is a lack (supposed, as we will see) of available alternatives, the adoption in practice of different policies cannot be easily admitted by policy makers.

prescriptions comprise many policy instruments, including, in some cases, a reduction of public spending.

Second, there are important theories, which are most often overlooked in public debate, which highlight the role of norms and institutions in the provisioning process of goods and services.

### **3.7 Historical Materialism and the Role of Cultural and Psychological Factors**

As we have just noted, the only theoretical alternative to mainstream economics which retain some grounds within the progressist domain is Marxism. However, as it tends to be interpreted in a monistic and absolutistic forms, it can hardly be employed — let apart the abstract revolutionary aspirations — for the solution of actual economic problems. In this regard, we think that it is this aspect of absolutism that has led to the failure of real communist experiences and the consequent adoption in these Countries of ultra-liberistic policies.

But, we can ask, what are the aspects of absolutism we attribute to the so-called mainstream Marxism? In our opinion, the central trait of that vision seems to be constituted by a deterministic interpretation of the “historical materialism”.

As is known, historical materialism constitutes one of the core elements of the Marxist theory. It posits, in its simplest form, that: **(i)** the historical epochs can be identified according to their mode of production; **(ii)** these modes of production tend to follow an evolutionary sequence—from the simpler to the more sophisticated technologies; **(iii)** in that connection, these modes of production can be identified also by their modality of extracting the surplus value; **(iv)** the “habits of thought and action” of persons are largely influenced by the role they occupy in the process of production and extraction of surplus value.

This theory founds its inspiration in the Hegelian dialectic and underscores the necessity to go beyond pure idealism through the consideration of the “material and real” aspects of the existence. In this respect, historical materialism has provided a decisive advancement in the comprehension of the true nature of economic and social phenomena.

This contribution, however, has often been interpreted in restrictive terms, in particular by the “mainstream Marxism” of the real communist Countries and of several academic circles. In fact, the role of economic factors in shaping human history has been interpreted as a parallel unimportance of the “non-economic factors”—in particular, the whole set of

culture, values, propensions and conflicts of the persons in their individual and collective unfolding. In this way, however, an abstract idealism has been replaced by an as much abstract materialism. Abstract because in its overlooking the role of non economic factors reduces the economic evolution to a deterministic and rationalistic process.

In this regard, it is worth noting that Marx, while paying due attention to the economic factors, has never disregarded the importance of the non economic aspects of life.

Undoubtedly, the significance of these aspects — by having been relegated in the realm of a superstructure, which is supposed to be largely determined by the economic structure — result in some way downsized in Marxist analysis. But not completely, however. In this sense, the determinism so often ascribed to Marx's theory is more apparent than real. For instance, in theorizing the historical necessity of a transition from capitalism to socialism and communism, he identifies only a broad framework within which many scenarios are possible. In the definition of these processes, it is explicitly required by Marxist analysis that persons — instead of letting be passively transported by the “deterministic stream of history” — play an active role in the very definition of these events. This being the case, it is hardly imaginable that the culture, motivations and conflicts of the person do not enter the picture. In this light, it is no surprise that the first chapters of the Marx's *The Capital* are devoted to workers' struggles for obtaining the ten-hours workday and that, on that account, Marx has demonstrated to be not only an acute theorist but also an effective Union man.

In short, what we would like to stress by this reasoning is that capitalism and socialism are not only economic systems but also systems of cultures and values through which the motivations and conflicts of persons find expression.

In this sense, our interdisciplinary approach can contribute to clarify the following aspects: economic action does not obey to an immanent logic arising out of an abstract rationalism, but it is heavily embedded in the complexity of motivations, conflicts, and of the historical and cultural heritage of any given context.

In this context, it should be noted that while a marked differentiation between economic and social/cultural aspects of human activity has occurred over time, it is also true that the connections between these two spheres are increasingly complex and significant: if, on the one hand, economic aspects (e.g. the evaluation of the costs and monetary benefits of the various alternatives) permeates the rest of social relations, on the other hand the opposite also holds true, in the sense that social and cultural aspects condition and find their expression in the economic sphere.

### 3.8 How To Build an Alternative Course of Policy Action?

In the search of an alternative theoretical and policy framework, it appears evident the difficulty of going beyond two well ingrained options: the central planning of the former communist Countries and the liberism of the capitalistic economies of today.

With regards to the latter, we have stressed its unrealistic character, in the sense that every market economy requires a strong and articulated degree of public intervention in order to ensure its workability.

The model of central planning seems more realistic, but it is easy to note that it tends to be highly inefficient (even though it might be necessary for a short period in order to accomplish a revolutionary process). The inefficiency of this system is caused by the circumstance that, in centralizing all the powers in few hands, it discourages — in the name of “socialism” and “communism” — not only private business but any kind of initiative and critical analysis. This situation is all too likely to generate a slack of any kind of activity and a parallel increase of defeatism and lack of motivation. These feelings, as made evident by psychoanalysis and historical studies, constitute the gateway for authoritarian regimes.

In the analysis of the failures of the model of central planning, the advocates of liberism have an easy game in highlighting the advantages of private initiative in fostering the development of economic systems. This kind of argument presents, however, the following limitations, which help explain its unrealistic character: as a matter of fact, it assumes that the only form of economic initiative open to the person is private business and, to that purpose, the ideal condition for its unfolding is complete *laissez faire* and atomism in the economic arena: everybody for himself and God for all, through the invisible hand of the market. In this picture, there is no hope whatsoever that social and cultural domains can make up in some way for the atomism in the economic sphere. In fact, these spheres tend to be considered irrelevant for economic analysis; or, to the extent that they are recognized some importance, they are subsumed in the “rationalistic domain” of the economic realm. As well expounded by Polanyi’s *The Great Transformation* and by Dewey’s *Freedom and Culture*, a system of this kind, by tending to destroy its social and cultural foundations, tends to destroy its very essence.

Moreover, it is easy to note that personal initiative can take place not only in private sphere but also in public and “mixed” domains. In this sense, one of the most important intuition of



John Rogers Commons, one of the founder of institutional economics, is that individual action tends more and more to take place within institutions and organizations.

In order to go beyond these too narrow models (central planning and liberism) we believe that Marxism and other social sciences theories should focus more on the analysis and solutions of real problems. Within this context, we believe that the central aspect for the construction of socialism and communism does not consist in the elimination of transactions as such but in the growing socialization of the systems of production and exchange. Such socialization, in fact, it is very different from a central planning system because it implies a planning activity open to the contributions of all the interested subjects.

A cooperative of production, for instance, can sell its products, innovate, etc., provided that its activity be directed to the attainment of the common good. This implies that it should promote the involvement and professional development of its workers, and that its products and services be useful for society. Within this ambit, a reasonable profit for the most efficient cooperatives can certainly exist — for instance, for a restaurant which attracts more customers — but this should be considered no longer as a private and antisocial profit but as a social relation, a kind of social reward for their activities.

In this regard, it seems also important to stress that all these issues need to be addressed not by abstract formulations but by a careful investigation of the single case. In dealing with these problems, it becomes paramount to ensure an adequate process of social valuing (cf.below).

## Concluding Remarks

One conclusion of this study is the importance of an adequate involvement of persons and groups (for instance, consumers, labour and environmental associations) interested in the activities of policies. Such participation can perform a monitoring function on policy action and, thereby, can contribute to reduce the problems of asymmetric information and multi-principal structure<sup>24</sup> typical of many institutions. By furthering in this way the process of social valuing<sup>25</sup>, it would become possible to gain more knowledge on the complex interplay between institutional framework, interest groups and policies and thus to provide with a more precise content the notion of public purpose and the related process of social valuing<sup>26</sup>.

In fact, there are complex interrelations between institutions and policies, which involve both their horizontal and vertical levels. In this situation it is difficult to acquire a comprehension of these phenomena embracing at the same the holistic and the specific aspects of the context. This situation is reinforced by the growing specialization of the related areas. For instance, an adequate industrial policy requires both a detailed knowledge of the related sectors and of the links of these sectors with the economic and

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<sup>24</sup> In another work (Hermann, 2009b) we have highlighted how these concepts, which tend to be more addressed by the new regulatory and institutional economics, can broaden their explicative power by considering also the theoretical framework of the old institutional economics.

<sup>25</sup> The theory of social value has a long tradition in the history of economic theory, and, in its simplest form, stresses that the system of social and individual values plays, more or less explicitly, a crucial role in policy action. The following passage expresses effectively this concept: "To conceive of a problem requires the perception of a difference between 'what is going on' and 'what ought to go on'. Social value theory is logically and inescapably required to distinguish what ought to be from what is; indeed, it is implicit in modern methodology.", [in Hodgson, Samuels e Tool (edited by, 1994, vol. I, p.406)]. The evolutionary, conflicting and relative character of social value was underlined by Commons through his concept of reasonable value. Regarded in this light, a full understanding of the concept of reasonable value would require a far-reaching analysis of the historical, economic, legal, ethical and psychological aspects which, in their complex interplay, concur to shape the characteristics of collective action — and the corresponding nature of the whole set of public policies involved — in any considered situation.

<sup>26</sup> In relation to these problems, it is interesting to note that the theory of social value might seem to run into the typical problem of "cultural relativism": in fact, it could seem that, if what matters is the adequate expression of social value, then any kind of value (and of corresponding policies and public purpose) — for instance, even social values based, in Veblen's terminology, on predatory and acquisitive attitudes — so expressed should receive, on the grounds of ensuring equal respect to each context considered, equal legitimacy no matter how ethical we deem it to be. In this respect, the central question becomes how to identify the ethical foundations of social value and policy action. On this matter, as also shown in another work, the ethical foundations of social values and policies may be found not so much in some kind of abstract universal principles (or moral duties) of kindness and solidarity but, rather, in rooting these principles in the actual needs of the person. In this sense, psychological sciences, in a mutual collaboration with institutional economics, can play a paramount role in identifying these needs and the policies most adequate for their attainment. For instance, if we assume, following the insights of Veblen and of many psychological studies, that the propensities of workmanship and parental bent — or, in the terminology of contemporary psychology and psychoanalysis, the need to establish sound interpersonal relations — lie at the heart of the true expression of the needs of the person, the ethical principles of solidarity, democracy and participation can be endowed with a more precise content as they would be based on a continual scientific-based observation of the characteristics of human needs.

social system. In this situation, a better participation and social value process would help to reduce the typical problems of policy action, which refer to the following interrelated factors:

- ❖ Complexity, uncertainty, incomplete and asymmetric information of policy action, also due to the interrelations between policies, institutions and interest groups;
- ❖ different opinions and objectives of the actors involved in policy-making, who are often concerned, as observed before, only with one or a few aspects of policies;
- ❖ efficiency and efficacy of public administration;
- ❖ difficulty — also due to path-dependency and lock-in phenomena — of prompting the economic and institutional changes which may be necessary for the effectiveness of policies.

As can be easily noted, these problems tend to become more critical in situations — occurring with great frequency in less developed countries and backward areas — of structural problems that render the trade offs and conflicts between policies more acute. Indeed, in these circumstances, an adequate process of policy formulation would be all the more important, but the capacity of policies<sup>27</sup> to master these problems is likely to be dramatically insufficient. This may happen because the "quality" of policies is not independent of the other characteristics of the social and economic context, but, rather, is partly determined by them. In this sense, the "quality" of policies should not be regarded as a totally exogenous variable but as a collective (institutional) and evolutionary pattern of action which is, at least in part, endogenously determined by the conflicts, values and motivations of all individuals and institutions involved.

As just noted, tackling these problems requires a substantial change of our conceptual paradigms, aimed at going beyond the insulation typical of a tight disciplinary boundary.

True — as observed by the famous sociologist Karl Mannheim — a landscape can be seen only from a determined perspective and without perspective there is no landscape. In this sense, observing a landscape from different angles (disciplines) helps to acquire a

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<sup>27</sup> With regard to Italy, these aspects have been comprehensively analyzed by Madia's recent book (2011) on the links between (i) the structural shortage of tenured jobs and (ii) the lack of adequate labour and research policies.

much clearer insight on the features of various perspectives and on the relations existing between them. Therefore, an interdisciplinary perspective does not imply that each discipline would lose its distinctive features. Quite the contrary, such more far-reaching approach, by broadening the horizon of the observers, contributes to a better comprehension also of the specific characteristics of their main fields of specialization. By considering all the relevant aspects of economic and social life, it becomes easier to devise policies better tailored to the profound needs and aspirations of society.

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