



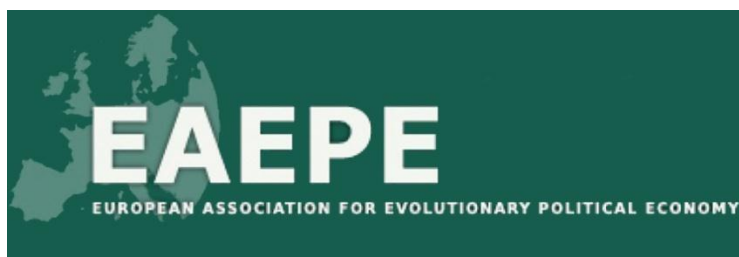
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## **The Ricardian Vice: A Schumpeter's observation**

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***The Ricardian Vice: A Schumpeter's vision about the way in which policy makers make policy nowadays***

**By Andres Blancas\***

***Abstract***

The aim of this paper is to try to show why Schumpeter called the Ricardian habit of economic analysis, by using an specific method, a vice and not a virtue, as well as the origin of this vice. To address this question it is necessary to deal with the meaning of 'political economy', the development of Ricardo as a thinker of classical political economy and his role in the policy-making process. Further, in a retrospective view of the Schumpeter's History of Economic Analysis, I attempt to show a Schumpeter's vision about the methodological way in which policy makers make policy nowadays under what I have termed a *Ricardian vice effect*.

***J.E.L. Codes: B12, B31, B41, B52, N01***

Many of the methods used in contemporary economic analysis were created or dealt with by David Ricardo, who was one of the most important thinkers of classical political economy. However, rather paradoxically, the source of strength in Ricardo's method was simultaneously its greatest vice. His method consisted of a process of abstraction which involved the deduction of strict conclusions from given premises. Although the method allowed Ricardo to derive practical solutions to many immediate economic problems of his age, still his method was called the "Ricardian Vice" by Schumpeter.

The objective of this paper is to explain the Ricardian vice, and to assess its benefits and costs in order to get new ideas, following the Schumpeter's approach of his History of Economic Analysis (HEA). Along the first three sections, I will try to explain the meaning and implications in economics of the Ricardian vice. Subsequently, to endeavour to elucidate such a vice I shall contrast Ricardo's theory of value and distribution with that of his predecessor, Adam Smith. Finally, the last section shall undertake to give an account of the effects of this kind of method of work on the way in which policy makers make economic policy nowadays.

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### 1. *The Origin of the Ricardian Vice*

Ricardo introduced a method of analysis that seems to have been necessary in order to take a step forward in discovering what Robert Heilbroner (1988, p. 106) refers to as ‘the laws of motion’ of the capitalist system. The Ricardo’s *Principles* (1811) and his *Essay on Profits* (1821) are filled with expositions consisting of rigorous deductions from a priori premises. However, notwithstanding his abstractions, Ricardo was basically a practical thinker in the sense that he theorized only about the then-contemporary world. Ricardian method of work, Schumpeter (1987, p. 472) wrote,

...was essentially to take hold of the problems that the day presented to him, and attack them by means of tools that he derived by criticism.

Ricardo’s ability for “heroic abstractions”, as Blaug (1985, p.136) has observed, created one of the most interesting models, judged by its scope and practical significance, in the whole history of economic theory: seizing hold of a vast range of important problems with an elementary analytical model containing only a few essential variables, he create spectacular results directed to policy prescriptions. In this sense, Schumpeter (1987, p. 472-73) was categorical when he pointed out that:

His (Ricardo’s) interest was in the clear-cut result of direct, practical significance..., he cut that general system to pieces, bundled up as large parts of it as possible, and put them in cold storage-so that as many things as possible should be frozen and ‘given’. He then piled one simplifying assumption upon another until, ...he set up simple one-way relations so that, in the end, the desired results emerged almost as tautologies. For example (if)... profits ‘depend upon’ the price of wheat. And under his implicit assumptions..., this is not only true, but undeniably, in fact trivially, so. Profits could not possibly depend upon anything else, since everything else is ‘given’, that is frozen. It is an excellent theory that can never be refuted and lacks nothing save sense. The habit of applying results of this character to the solution of practical problems we shall call the Ricardian Vice.

In economics literature, particularly in history of economic thought and economic policy, the Ricardian vice term has been frequently used to show the way in which economists have built and used very abstract economic models for understanding and

solving the knotty real world economic problems; Blaug (1992, p. 53), one admirer of Ricardo's figure since the end of the 1950s, emphasized such a vice as the hallmark of Ricardo's style to "minimize the distinction between abstract conclusions and concrete applications." A nice summary of the evolution of this Ricardian term in Schumpeter's context and forward has been published by Churchman (2001, p. 10-17). The point here, however, is why Schumpeter called this Ricardian habit a vice and not a virtue, as well as the origin of it. To address these questions it is necessary to deal with the meaning of 'political economy' and the development of Ricardo as a thinker of classical political economy.

Although political economy meant different things to different writers and the term "economics" had not yet been invented, as Schumpeter (1987, p. 21) and Heilbroner (1988, p. 13-34; 1986, p.1) have pointed out, this term was commonly in use in the nineteenth century to mean both 'economic theory' or 'pure economics' as well as 'economy of state' or *Staatswissenschaft*, in Schumpeter's (1987, p. 21-22) language. Ricardo (1981, p. 6) considered the principal problem in political economy to be the determination of "the laws which regulate the distribution" of the "whole of the produce of the earth" among "the proprietor of the land, the owner to the stock or capital necessary for its cultivation, and the labourers by whose industry it is cultivated". On the basis of Smith's (1985) *Wealth of Nations*, Ricardo considered not only 'economic theory' but also the subject of 'economy of state', which was set out in the second part of his *Principles* (1981, p. 150-256). Further, Ricardo (1962, p.9) wrote:

The consideration of those principles (which regulate rent), together which regulate the profit of stock, have convinced me of the policy of leaving the importation of corn unrestricted by law.

In fact, the relationship between 'economic theory' and 'economic policies' was present in all 'classical' writings, as it has been observed by Roll (1974, p. 139-40). For instance, in his *Theory of Moral Sentiments*, Smith (2009, p. 264) announced "I shall in another discourse (*Wealth of Nations*) endeavor to give an account of the general principles of law and government."

Schumpeter (1987, p. 473) thus, called the Ricardian 'habit' a vice because Ricardo was able to ascertain from a 'given' and 'simple' theoretical model the 'desired'

and ‘clear-cut result’ emerging almost as ‘tautologies’ in order to apply them in economic policies. In spite of the fact that this Ricardian ‘habit’ contributed to Ricardo’s great success as “the first economist of all times” and that “Ricardo literally invented the technique of economics”, as Blaug (1985, p.136) recognizes, it also can be viewed as a vice because, it prevented Ricardo from “penetrat(ing) down to the deepest depths” as well as, Schumpeter (1987, p. 470) asserts, “besides remaining badly finished in a formal and technical sense.”

The origin of the Ricardian Vice could be found in the arguments given by Schumpeter (1987, p. 470) about Ricardo’s development as a thinker. In contrast to Smith, Ricardo was all but uneducated in the scholastic sense. He was “always a man of the money market.” In this way, only “the dregs of his intellect and energy were available for analytic work”, Ricardo was not the mind that works from the clay, which can be shown by his methodology. In fact, Ricardo owed very little to other writer’s works (such as Smith’s *Wealth of Nations*), though his later study of Say and Malthus and his discussions with both and with James Mill served to clarify his ideas. Ricardo’s was not the mind that is primarily interested in either fundamentals or wide generalizations. In this respect, Roll (1974, p. 174-75) states that the *Principles* do not exhibit the polish of the *Wealth of Nations*, nor are they so clearly part of a comprehensive social philosophy. On the contrary, Heilbroner (1986, p. 1) has characterized Smith’s work as consisting of “deep, complex, historical and philosophical disquisitions”. In Smith, he adds, “human nature, history, and social psychology are the bedrocks on which his architecture of ideas was raised in an effort to see the bottom of things”.

## ***2. The Benefits of the Ricardian Vice***

The benefits of the Ricardian Vice could be identified with the success of the ‘Ricardian School’<sup>1</sup>, whereas the costs could be related with its mistakes that in one way or another obstructed the development of economics. The influence of Ricardo’s treatise made itself

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<sup>1</sup> This term was used by Schumpeter (1987, p. 476) to identify the core of the school consisting of: Ricardo, James Mill, McCulloch and De Quincey, whose names made possible that Ricardo’s teaching gained sufficient reputation to survive.

felt almost as soon as it was published and for over half a century it dominated economic thinking in Britain. This influence can be found in the leading periodicals, the *Encyclopedia Britannica*, popular literature, and in the Parliament; which, as Blaug (1985, p. 136) has noted, “succumbed to Ricardian policy proposals.” His public recognition was made by his writings on monetary policy and free trade. People took to his theory, Schumpeter (1987, p. 476) says, because they agreed with its recommendations.

Blaug (1985, p. 136-137) argues that some then-contemporary economists (Bailey, Scrope, Read, Jones, Longfield, Senior, Whately) were forced to accept the notable Ricardian doctrine that the productivity of labour in agriculture regulates the rate of return on capital as well as temporal changes in distributive portions. As long as the Corn Laws prevailed on the statute books, the issue of free trade gave practical significance to the Ricardian system. And when annulment came in 1846, Mill’s *Principles*, published two years later, brought new authority to Ricardo’s ideas. In the last decade of the 19<sup>th</sup> century the Ricardian theory of rent was considered an exceptional case of a much more general theory. Also, to Ricardo’s other achievements must be attached that of having formulated marginal analysis. The law of comparative cost and the method of comparative static analysis that Ricardo formulated have subsisted. And the main question that Ricardo posed, namely, how the changes in the relative shares of land, labour, and capital are linked with the rate of capital accumulation, persists as one of the continuous concerns of modern economists.

### ***3. The costs of the Ricardian Vice***

However, economic theory is not a ‘stock of political recipes’ and Ricardian methodology has its costs. The lack of depth in his analysis, Schumpeter (1987, p. 474) underlines, can be reflected in his ‘subjective originality’, which ‘was of a high order.’ For example, he adds the arguments of Jevons (1957, p. xlv-xlvi), who wrote:

... the doctrine of wages is not really novel at all, except to those whose view is bounded by the maze of Ricardian Economics. (Further)...I feel sure that when, casting ourselves free from the wage-found theory, the cost of production doctrine of value, the

natural rate of wage, and other misleading or false Ricardian doctrines we begin to trace out clearly and simply the results of a correct theory.

So, after 1870, most economists turned their backs on what they understood to be the Ricardian theory of value and distribution and agreed with Jevons (1957, p.li), quoted also by Blaug (1985, p.136), that Ricardo had ‘shunted the car of economic science on the wrong track.’ In the 1930s the problem of aggregate effective demand caused many economists to agree with Keynes that the total influence of Ricardo’s approach has been a catastrophe to the development of economics. Although, Schumpeter (1987, p. 473) and Blaug (1985, p. 136) have pointed out the academic links between Ricardo and Keynes. In a footnote, the former explains that in the “Ricardo’s and Keynes’s methods of searing the clear-cut results...they were brothers in the spirit“. The last one underlines: “Ricardo was the first to master that art that brought success to Keynes.”

Ricardo’s inquiry for an ‘invariable measure of value’ came to be considered as a conceptual irregularity. Only after the second half of the XX century, Sraffa (1960) solved this Ricardo’s problem, although Blaug (1985, p. 137-43) has stated that there is no such thing as an invariable measure of value “that will satisfy all the requirements that Ricardo place upon it.” However, Ricardo’s inability to solve the problem which his theory faced also prepared the way for Marx, who was “the greatest of Ricardian socialists”, as Schumpeter (1987, p. 379) has recognized.

#### ***4. The Ricardian Vice in Ricardo’s Value Theory and his laws of distribution***

Ricardo elaborated his value theory<sup>2</sup> on the foundations of Smith<sup>3</sup> (1985, p. 31), who observed that the word ‘value’ has two different meanings: ‘value in use’, as ‘utility’, and ‘value in exchange’ as ‘power of purchasing’. The value of any commodity, he added, “is

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<sup>2</sup> Heilbroner (1988, p. 107-130) states that “The value theory is ... the search for processes or structures that impart orderly configurations to the empirical world...” Further, he identifies five distinct attempts to unravel the value problematic: (i) a normative determination of standards of price; (ii) labor as order-bestowing; (iii) cost-of- production theory; (iv) Marxian theory of value; and (v) postclassical utility theory. Into this new context, the problematic of value in both Smith and Ricardo can be used to distinguish between appearances and essences, and to uncover what exists “behind the veil of economics.”

<sup>3</sup> Roll (1974, p. 156) has identified the source of Smith’s theory value in his predecessors; Smith built his value theory on the foundations of Petty, Cantillon, and he also adds to it certain elements of the supply and demand analysis of Locke.

equal to the quantity of labour which... is the real measure of the exchangeable value of all commodities.” He had dealt with ‘the determination of value by labour’ and ‘its determination by the value of labour’. The famous Smith’s (1985, p. 48) example about the beaver<sup>4</sup> is the ‘root’ of Ricardo’s labour quantity theory of value, as Schumpeter (1987, p. 310) noted. Adam Smith, Ricardo (1981, p. 13) wrote, “...accurately defined the original source of exchangeable value.” However, Schumpeter (1987, p. 309) argued that Smith had no labour theory of value, ‘what he wanted was price theory.’ In fact, Smith (1985, p. 59) stated that at any moment of time ‘market price’ is determined by demand and supply. But, the ‘real’ price “... is the central price, to which the prices of all commodities are continually gravitating”. Consequently, Schumpeter pointed out that Smith’s theory of value ‘was what later on came to be called a cost-of-production theory.’ About this topic, Smith (1985, p. 31, 53) wrote “the real price of every thing really costs, ... is the toil and trouble of acquiring it... Wages, profit and rent are the three original sources of...exchangeable value”.

In fact, Ricardo (1981, p. 11, 24) went a step further than Smith because he tried to show that labour created value in any society, and that the relative prices are entirely determined by relative labour input requirements and ‘not on the greater or less compensation which is paid for that labour’. He stated that

... the exchangeable value of the commodities produced would be in proportion to the labour bestowed on their production; not on their immediate production only, but on all those implements or machines required to give effect to the particular labour to which they were applied. If we look to state of society in which greater improvements have been made...we shall still find that commodities vary in value conformably with this principle.

However, Ricardo is not free from confusion himself as some economists have pointed out. For example, Roll (1974, p.178) underlines that Ricardo confounded the difference between ‘value’ and ‘ratio of exchange’. Further, the labour theory of value in Smith’s parable, which was quoted approvingly by Ricardo (1981, p. 13) does not explain why two deer will exchange for one beaver. How then, Heilbroner (1983, p.262-265) writes:

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<sup>4</sup> “In that early and rude state of society... if ... it usually costs twice the labour to kill a beaver which it does to kill a deer, one beaver should naturally exchange for or be worth two deer”.



.. can the classical labour theory of value assert that an hour of labour directed to deer hunting exerts the same influence-that is, will be manifested in the same price- as an hour spent straightening pins? The answer is that it cannot.

Despite his insistence that labor alone is the source of all value as well as conceding to capital a systematic influence on price Ricardo also proposes a version of a cost production explanation of value.

But, where is the Ricardian vice? As Ricardo wanted to discover the ‘laws’ of ‘distribution’, he found the clue in the ‘exchangeable value’. He deliberately stated the validity of the labour theory of value as the fundamental and universal principle and proceeds to examine how far the different aspects of capitalist economy are compatible with it. The value of the product, which is appropriated by the capitalist, is divided into two parts: wages and profits. In this way Ricardo ‘plunges’ at once into the problem of profit and wages, and he is brought face to face with the dilemma which had made Smith retreat from the labour theory of value. This is the ‘desired’ and ‘clear-cut result’, which was applied when Ricardo combined the theory of value and distribution with the law of comparative cost to argue that social welfare is augmented by free trade and that benefit of her comparative advantage in manufacturing presumably for centuries to come.

As a result of his vice, Ricardo could not penetrate ‘down to the deepest depths’ of the value theory and Schumpeter (1987, p. 474) sentenced: “Objectively all the ideas of the *Principles* are individually met with before, and we cannot attribute more than effective synthesis to Ricardo.”

In any event, Ricardo was and still is a great controversial economist. We may displace his awkward numerical proofs by more elegant geometrical and mathematical demonstrations, like many economists such as Sraffa (1960) or Pasinetti (1984, p. 19-32) have made. But most of the time we still utilize a manner of reasoning that Ricardo made habitual.

### ***5. The Ricardian Vice effect in policy makers nowadays***

In a Schumpeterian spirit about why do we study the history of economics, this recall to the Ricardian vice, that Schumpeter pointed out in his HEA, aims to get new ideas and

endeavor to show how policy makers make policy nowadays in a way observed by Schumpeter.

### 5.1. *The HEA in retrospective*

It is evident the important role of the Schumpeter's economic thought legacy; not only in the evolution of economics as a social science, but as well as in the practical methodology of economics as economic policy. Although, the *Age of Schumpeter* as an ideology arrived in the late 1970 and early 1980, Perlman (2003, p.174) has remarked the 'brilliant' Schumpeter's legacy:

Again, in my own view Schumpeter's truly great contribution comes mostly from the work of his mature mind, the 1954 *HEA*. It offers what I have frequently referred to as one of three magisterial interpretations of the history of economic thought – specifically, it is his idea that economic thought is the filiation of ideas over time.<sup>5</sup>

Thus, although uncompleted, *HEA* is the major piece of the fifth and last of Schumpeter's great projects. As all great writings it has been controversial. However, everybody has recognized its high intellectual quality; even mainstream economist like Viner (1954), quoted by Perlman at the beginning of his *Introduction* to *HEA*, considered the appearance of *HEA* as “a major event in the history of the *Dogmengeschichte* of our discipline”. Furthermore, Diamond Jr. (2009, p. 532-3) argues that:

Some subgroups of academic economists have continued to value the contributions of Schumpeter in the 50 years since his passing. In particular,... still value Schumpeter *HEA* as a major source in field. The work serves both as a reference unrivaled in its comprehensiveness, and also as a continuing source of research questions... I detected a growing acceptance of Schumpeter's central message...more mainstream economist.<sup>6</sup>

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<sup>5</sup> In his *Introduction* to *HEA*, Perlman (1987 edition, p.1) considers this filiation of ideas in the development of economic theory, the *HEA* and *Ten Great Economist* as one of the five major projects on which Schumpeter centered his intellectual efforts. Schumpeter (1947, p.149) himself recognized that: “Economic historians and economic theorists can make an interesting and socially valuable journey together, if they will. It would be an investigation into the sadly neglected area of economic change.”

<sup>6</sup> Among the mainstream economist that have accepted Schumpeter's arguments are Viner, Samuelson, Baumol, Brandford DeLong, Larry Summers, Martin Neil Baily, Martin Feldstein, and George Stigler who is identified solidly in the mainstream and Nobel-prize winner.

The matter of fact is that controversial Schumpeter's HEA embeds a great richness of ideas, proposals, advising and visions for our profession as economists nowadays; just when we have lost the track of economic theory and policies by the problems that face us as a result of the second-largest economic crisis in history of the capitalist system, after the Great Depression.

### *5.2 The Schumpeter's vision as economist*

It is very interesting and challenging to go into the amazing and tricky field of visions or predictions made in economics, and Schumpeter made it. In his *Introduction* to HEA, Perlman (1987, p. 12) notes a "complex but not-quite idiosyncratic vision of economics."

Schumpeter made also prediction about the economic performance, which can be found in his published work. Some of them were derived from his natural analytical observations others by his vision as economist. There is no doubt that Schumpeter was one of the most famous economists of his time. Senn (2003, p. 317-23) argues that such a fame was the result of his contributions to many subjects; one of them is his visions about the future capitalist system based on methodological arguments, where hoped policy as a product is what counts. Additionally, Senn underlines the links between method and models to produce policy recommendation in social sciences, and, "in general, the shorter the time horizon, the more accurate are the results to be expected."

In this respect, Blaug, quoted by Churchman (2001, p. 11), has pointed out the Ricardo's 'telescopic' tendency that also will be useful to explain the Ricardian vice effect below:

I came to identify Ricardo's 'telescopic' tendency to collapse the long run into the short run as if there was no transition period as the abiding vice of orthodox economic.

What Schumpeter called the Ricardian Vice it is not a "Schumpeterian incomprehension", as Kurz (2007, p 242) has argued. In fact, the Ricardian vice is another Schumpeter's vision that has evolved toward an intellectual vice of policy makers nowadays, who have been affected by this Ricardian vice. Under the neoliberal ideology with its faith in free market and globalization, policy makers use to make policy

with a method of work invented by Ricardo. However, the results of applying neoliberal policies in almost all over the world have been so far from the promised prosperity for all.

### *5.3. Neoliberalism and the Ricardian vice effect*

Schumpeter (1987, p. 473) identified two arguments that can be used to state the connection between the Ricardian vice and the intellectual vice of policy makers at the neoliberalism age. He pointed out that the “felicitous combination” of both his advocacy of winning policies and his theory makes of “Ricardo the first economist of all times.”

Taking into account what it was mentioned above, Ricardo was a practical thinker and the success of his school is on his reputation that was made by his writings on monetary policy and free trade as the great economic issues of his time. Further, in 1819 Ricardo took a seat in the House of Commons and defended the free trade policy and the Corn Law. Like Smith, Ricardo rejected the protectionist policies for national economies, particularly for agriculture. He believed that British Corn Laws-tariffs on agriculture products- were leading to the stagnation of the British economy. Precisely, neoliberal policy makers believe the same that Ricardo thought and all his neoclassical economists followers think.

Schumpeter (1987, p.474) also alerted that economic theory is not a ‘stock of political recipes’ or a ‘box of analytical tools’, in fact, “*a detour Ricardian analysis was.*” However, Ricardo’s ideas have had a tremendous influence on later developments in economics, his method of analysis (i.e. the Ricardian vice), and his policy recommendations about free trade have also been used in the practical ways by policy makers nowadays.

This methodological issue in the policy making process *a la Ricardo* is as important as any other factor to explain the economic crises nowadays. Furthermore, since with this method of making economic policy, neoliberal policy makers have not been able to figure out the main economic problems, even those that classical economist, including Ricardo, were engaged in. That means that the Ricardian vice has become a real economic problem in the form of a policy maker’s intellectual vice, because incorrect methods and economic theories not surprisingly lead to incorrect policies, and

neoliberal policies have been wrong, paraphrasing to Stiglitz (2010, p. xv-xvi), who also writes: “When the world economy went into freefall in 2008, so too did our beliefs. Long-standing views about economics, about America, and about our heroes have also been freefall.” At the present time, under recession conditions, economic uncertainty, stagnation, and so on, there should be a change in economics. There is a great opportunity to get out of this intellectual vice by rethinking and promoting a new way to make economic policy from a different theoretical foundation, it is time to put the method of economic analysis and making economic policies in the right track.

Some authors like Krugman (2009), Stiglitz (2010), Steger and Roy (2010), Harvey (2007), Chang (2010), Arestis and Sawyer (2011), and Dymski (2011), among others, have shown the relationship between both orthodox economic theory and neoliberal policies, and the influential role of the neoliberal mainstream economics in the most recent second Great Depression derived from the US economic crisis in 2008-9 and its overwhelmed effects in socio-economical terms. For instance, Arestis and Sawyer (2011, p 1-2) write:

Economic policies arise out of and can only be understood by reference to the theoretical framework that underpins the analysis undertaken and the way in which the economy operates and works in the real world... The links between the mainstream policies of the past two decades (in the areas of macroeconomics, inflation targeting by an ‘independent’ Central Bank and fiscal consolidation with labour market ‘flexibility’ and financial liberalization) and the ‘New Consensus in Macroeconomics’ (NCM) are one confirmation of that. But the financial crisis and the ‘great recession’ have thrown the NCM and the associated policies into disarray, and we would suggest that important and significant changes are paramount.”

Additionally, Stiglitz (2010, p. xvii) has pointed out: “essentially all the critical policies, such as those related to deregulation, were the consequence of political and economic ‘forces—interests, ideas, and ideologies.’”

The Ricardian vice has evolved toward an intellectual vice because policy makers make policy under the method of work invented by Ricardo and by the sort of mainstream economic theory<sup>7</sup> used by this proposal. The neoclassical theory has

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<sup>7</sup> Although the Keynesian theory used by policy makers during the two Great Depressions can also be related with the Ricardian Vice, because Schumpeter (1987, p 473) points out that both Ricardo and Keynes “were brothers in the spirit” in terms of the “methods of securing the clear-cut result.”

developed toward several fields but maintaining the base of their main ‘heroic’ assumptions or the “method of securing the clear-cut results” in Schumpeter’s words. The kind of assumptions used by neoclassical economist, in its different approaches, match with the method of securing the clear-cut results. So, the results has been that the neoliberal ideology of the policy makers have led the world economy toward continues economic crises with the main difference that in a globalized environment crises are general world economic crises with general unemployment and increasing globalized inequalities in income and wealth distribution.

Nowadays, policy makers are making policy in the most traditional method; they are acting under the Ricardian vice effect in two ways: 1. In methodological terms or the way in which they make policy, and 2. The kind of theoretical foundation of the applied economic policy, which is the neoclassical economics and neoliberalism ideology as a ‘felicitous combination’.

Taylor (1991, p. 3-4, 11) has nicely summarized the core of American neoclassical economics, making clear the neoclassical methodology and remarking the idea of economics as a historical science.

The dominant view is that macro models can be derived from first principles; they should be justified by stylized optimization exercises that micro firms and households supposedly undertake. Besides denigrating the historical nature of their science, economists ape overly speculative physicists and legalistic mathematicians lost in proofs in assuming this stance, but it has been the consensus at least around the North Atlantic since Paul Samuelson (1947) methodological revolution achieved full force a generation ago. Since then, graduate students have learned far more optimization mathematics and less about history and institutions than is intellectually safe... the mainstream’s faith in optimization often blinds its adherents to obvious historical and institutional facts...Following a tendency well exemplified by Stiglitz (1988), the neoclassical focus is always on demonic optimizations by ‘agents’ subject to given constraints, rather than historical analysis of how the constraints affect macro equilibrium subject to plausible closure assumptions, as they themselves change over time... The current mainstream recipe for constructing macroeconomic models errs in taking optimization not as a metaphor but as an exact description of how economic actors behave-first their individually extremal decisions are derived in exacting detail and then heroic simplifying assumptions are made so that they can be aggregated to give the macro view.

Since the early 1980s, the neoliberal ideology has ruled the economic policy in all over the world. Free market economy friendliness and privatization have been the main

characteristics of the modern policy. Free trade policies and free financial policies are the result of mainstream economics advising, which foundations are on the competitive economies assumptions, and optimizations performance and Friedman positive approach to economic policy. The methodological way of making neoliberal policy consists on given a model, constructed under “heroic abstractions” no by trying to deep into the economy like a social science complexity, considering and analyzing one by one the several assumptions used to built such a model.

Although neoliberalism comes in several varieties that were built upon the classical liberal ideal of self-regulating market, Steger and Roy (2011, p11, 136-37) summarize nicely the core of it:

neoliberalism functions as an ideology, a mode of governance, and a policy package emphasizing the pivotal role of free markets and private enterprise,.. it swept the world in two successive waves, starting in the 1980s in the United Kindom and the United States. Boldly putting the economic ideas of Hayek and Friedman into practice, in the process, Reganomics and Thatcherism succeeded in shattering the Keynesian paradigm that had dominated economic theory and practice since the dark years of the Great Depression. Although these two first-wave variants developed their own set of policy preferences, they shared a common desire to reshape their respective societies according to the neoliberal D[eregulation]-L[iberalization]-P[rivatization] formula.

Given the unsuccessful results and the economic problems generated by neoliberal policies, several governments have started to move away from such policies, and are more frequently applying their own criterions and regulations policies. For instance, Chang (2010, p. xiii-xv) has pointed out and summarized in a very nice style the fallacies and promises made by neoliberal ideologists and the opposite results of these neoliberal policies:

This catastrophe has ultimately been created by the free market ideology that has ruled the world since the 1980s....The result of these policies has been the polar opposite of what was promised...free-market policies had resulted in slower growth, rising inequality and heightened instability in most countries...Thus, what we were told by the free-marketeers—or, as they are often called, neo-liberal economist—was at best only partially true and at worst plain wrong...the ‘truths’ peddled by free-market ideologues are based on lazy assumptions and blinkered visions, if not necessarily self-serving notions.

Even the US government of Barak Obama that in his first Address in 2009 recognized and accepted the market power to create wealth and develop freedom has rejected the neoliberal ideology that comes from the old political economist. Steger and Roy (2010, p. 2-3), who noted the Obama criticism to free market ideology, have pointed out the Ricardo's free trade policy filiation:

Opposed to the mercantilism of monarchs who exercised almost total control over the economy in their efforts to amass large quantities of gold for largely bellicose purposes, 'classical liberals' like Adam Smith and David Ricardo preached the virtues of the 'free market' and *laissez-faire* economics. Smith is credited with creating the Scottish Enlightenment image of *homo economicus*—the view that people are isolated individuals whose actions reflect mostly their material self-interests. Ricardo's theory of 'comparative advantage' became the gospel of modern free traders. He argued that free trade amounted to a win-win situation for all trading partners involved, because it allowed each country to specialize in the production of those commodities for which it had a comparative advantage... In fact, Ricardo even went so far as to suggest that benefits from specialization and trade would accrue even if one country had an absolute advantage in producing all of the products traded. Politically, Ricardo's theory amounted to a powerful argument against government interference with trade and was used by 19<sup>th</sup>-century liberals like Richard Cobden as a formidable ideological weapon in the struggle to repeal the protectionist Corn Laws in England.

Finally, it must be mentioned that under actual economic conditions, there is a black hole in the economic perspective, since it is clear with the other Schumpeter's vision (1987, p. 473) about Keynesian economics, because Ricardo and Keynes were 'brothers in the spirit' in methodological terms.

We should be able to learn the lessons given by the evolution of the History, particularly socioeconomic history and the history of economic thought. Paraphrasing to Jevons, I am sure that only when policy makers aborts the imperfections developed by the Ricardian vice effect, and when economics veers toward our real world in a more social, justice and ethical approach, like that promoted by Schumpeter in his HEA, looking for joining interdisciplinary, even multidisciplinary, activities or professions among economics and other social sciences, making an "interesting and socially valuable journey together"; only then, we will be able to arise toward a happier and more justiciable world. In terms as Sen (2010, p. vii) has pointed out the idea about looking for justice: "there are clearly remediable injustices around us we want to eliminate".



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