Editorial

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The importance of the relation between Economic Theory and Economic Policy, yesterday and today

Nineteen years after the First World War,[12] and just some years after the Great Depression,[13] Professor Sutton (1937) writes from Oxford an article titled "The Relation Between Economic Theory and Economic Policy" for *The Economic Journal*, where he expresses a conclusive criticism to the postulates presented by professor Robbins, who proposes four basic principles of every theory.[14]

Sutton (1937) starts his critique describing that these principles are in favor of free competition, which should be promoted by Governments, which might avoid establishing restrictions to freedom of choice with the aim of offering greater possibilities so individuals can increase their subjective satisfaction. The discussion between professors Sutton and Robbins focuses on the fact that individual satisfaction is not obtained from comparing consumption alternatives, but major satisfaction is the possibility of choosing among the highest number of alternatives. Sutton (1937) states that Robbins' propositions, ultimately, show the essence of the *laissez-faire* policy, and he argues about the lack of veracity of proposition one. He says that a man can have many alternatives to change his apartment, but he might not have the conditions to do so; this situation decreases his satisfaction instead of increasing it.

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11 Its trigger was the attack to Sarajevo (Capital of the Imperial province of Bosnia and Herzegovina). On 28 June 1914, Austrian Archduke Franz Ferdinand, heir to the Austro-Hungarian crown, and his wife, the Archduchess Sophie Chotek, were killed by Gavrilo Princip as part of a conspiracy supported by Serbian soldiers; whose ideology consolidated the separatist movement known as *Young Bosnia.* This event, which at that moment was considered as the European War by the United States, or the Great War by Europeans, but that we commonly know as the First World War, reorganizes the hierarchical order of nations in the 20th century.

12 The beginning of the Great Depression was on October 24, 1929 with the fall of stock prices. Since that moment, speculation maintained stock markets rising. Initially, The Federal Reserve rightly invested money in the economy but, soon after, the council did not maintain the monetary policy that it was applying, due to some strains it had with New York. This was the main cause behind the Great Depression. The crisis reached its most critical point until the fall of 1930 when the United States Bank, being still solvent, could not answer to the liquidity requirements demanded by its clients.

13 "1. Every man at all times aims, by choosing between alternative courses of action, to get the highest possible subjective satisfaction out of his own scarce resources; 2. Objectively, the only way in which the subjective satisfaction to a man of each item of his consumption can be measured is by his outward behaviors, viz. by the visible efforts and sacrifices he will make in order to get it; 3. If through free agreement two persons make a certain transaction at certain price, this transaction rather than any other will maximize the subjective satisfaction of them both, relatively to their existing scarce resources (for otherwise they would not both have agreed to it). 4. If, through free agreement, every scarce good is allotted to him whose effective demand for it is greatest, the sum of subjective satisfaction achieved in the society will always be as large as possible" (Sutton, 1937, pp. 45-46).

In this sense, he makes a strong criticism to those economists who, like Robbins, argued that the sum of each satisfaction —result of competition— never reduces society satisfaction as a whole, instead, such sum of satisfactions expresses the total maximum satisfaction of society.

Sutton (1937) explains that the aim of his discussion is to approach how economists, from the scope of free competition, argue their generalizations in the face of prices behaviour. Because they say free competition is, in some way, better than monopolist restrictions, using the same false arguments about the "total satisfaction of society", which were always criticized by the "economic welfare" doctrines, that argued that a "welfare policy" was against free competition and vice versa.

In this sense, Sutton highlights three historical processes to take into account. First, what nowadays we call economy is the product of the liberal-democratic era, which flourished in the nations of England, France and the United States, inspired in the physiocratic ideas about equality, which led to French revolution. Second, the premise that says that each man looks for his maximum possible subjective utility is supported by economists from the *laissez-faire* policy. Third, during the first decades of 20th century, while it seems that these premises did not adjust to reality, economists —inspired by John Maynard Keynes— sought for Government intervention with the aim of stabilizing the equality and satisfaction level, and, in such way, reaching the objective of getting a true economic welfare.

Finally, Sutton (1937), in relation to Robbins' propositions, enunciates his position: 1) individuals never look for a supreme individual subjective utility or a maximum of social subjective utility, in the sense that each one is just interested in his own welfare and not other people's welfare; 2) many times, individuals sacrifice their present advantages for the long lasting advantages they expect from their professions; 3) achieving ones' wishes implies, in some way, the restriction of other people's freedom,[15] and 4) most individuals' desire of stability and security is higher than their desire to have the highest possible freedom of choice. In a never-ending competition, in which no one gets a permanent position of superiority, this is not the wish from most men; this is the reason why, nations have historically created institutions and corporations to face these problems.[16]

Some years later, after the Second World War, while the new global order was starting to consolidate, Professor Henry W. Spiegel (1945) focused his attention on the budding school of economic thinkers from Australia, in which A. G. B. Fisher, J. B. Condliffe and Dr. Walker stood out. In his paper titled "Economic Theory and Economic Policy" published in *The Journal of Business of the University of Chicago*, he underlines Dr. Walker's contributions and his concern about overcoming the gap between theory and politics which was evident during those days. Although his work is related to institutional

14 Sutton (1937) expressed his concern because, at that time, the real situation demonstrated that monopolies were created with the deliberate aim of limiting the scope and freedom of possible choices, even when factors were distributed according to the effective demand principle.

15 In the liberal-democratic era, the factors' mobility was the main objective of Government policy. This promoted the creation of monopolies based on property and free association. In this way, society focused on guaranteeing supreme security to producers upon the base of powerful monopolies, including monopolies of worker unions, which would help those who were willing to obtain the maximum freedom of consumption choice and workers mobility.

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economy, it goes further; he highlights that the whims of pure theory should look for the desire of facing problems in real-life, and in this way, economic science might be useful to legislators and administrators.[17]

In this way, Dr. Walker's main argument was that economic theory of the time did not adjust to economic realities, as he considered that it should be an instrument to study concrete problems on the base of realist postulates and not on abstractions of world familiar elements. Thus, he criticizes those economists who, aknowledging that the postulates of theories that they use to design policies are not created based on real problems, adjust them to make them look real. According to Spiegel (1945), Dr. Walker criticizes the way economic analysis techniques of the time focused on expressing reality in terms of very complex formulas which, when covering more than the relevant factors (cause of this complexity), could not be applied to the solution of concrete problems.

Finally, Spiegel explains that Dr. Walker wanted to revive the welfare discussion on the basis of distinguishing the assumptions related to increasing national income and the ones related to its distribution. Based on this, he proposed a systematic research on the relation between equality and welfare emphasizing on a minimum standard of economic welfare[18] which, combined with the appropriate policies, should improve workers' conditions.

In the second half of the 20th century, a new movement of economists emerged to validate the relation between economic theory and economic policy, by generating research focused on resolving the rising problem related to the theory of economic regulation.[19] In this context, we find Richard A. Posner (1974) who writes a paper titled *Theories of Economic Regulation*, where he presents the two main theories of economic regulation: first, the "public interest" theory, bequeathed by the previous economic generation, which maintains that regulation rises as a response to the social needs to correct market unfair practices. And the second one, the "capture" theory, is the result of a mixture of liberals in favor of the welfare State, Marxists and free market economists; it enacts that regulation is born as a response to the demands of groups who struggle between themselves to maximize their members' incomes.

Professor Posner (1974) presents a series of criticisms, based on both public interest theory and more recent economic theory, which conceives regulation as a service provided to effective political interest groups, and it is interesting that until that moment, economic theories had not been able to generate accurate enough hypothesis to be empirically verified. Finally, Posner hopes that, with time, economic theory may take over the assumption that human behavior is the response of selfish beings to their environment, which should have a wide application in the political process.

Now, as we commemorate a hundred years of the beginning of First World War, such discussions focused on resolving the latent voids in the relation between economic theory and economic policy,

16 According to Spiegel (1945), Dr. Walker strongly criticizes the institutional school methodology as it takes into account bias between its way of perceiving the theory-analysis relation at the moment of doing works.

17 These ideas allowed later on the creation of indicators to rate the relative welfare of the population such as the poverty line (LP) and the Unsatisfied Basic needs (UBN) rate, among many other indicators developed until now.

18 See more in Stigler (1971).

are more valid than ever. The reality of the current globalization period, from its economic dimension,[20] reveals that those spaces could be held up by phenomena such as corruption, lack of governance, inequality, war and the greed of a few big businessmen, who want to collect all of the world's wealth. In this sense, today more than ever, discussions about the State's role in economic regulation, as well as discussions about welfare and sustainable development, are vital. It is therefore a priority for economic scientists to formulate theories with real postulates that help to finally overcome problems of development and wealth inequalities among nations, which today, after a hundred years of the First World War, do not seem to be solved; on the contrary, they are more alarming than ever. Therefore, it is necessary to recall Kalmanovitz when he says that:

> *Facing new orientations, which expect to drive history by diverse paths, the best we can do, as concerned economists and administrators, is to offer our new alternatives, reaffirm the importance of social subjects, use appropriate models and true data, continue searching for objectivity and rigor; in short, do works that demonstrate utility to better understand the present. And also overcome an inconvenient tendency shared by many economists, which consists of a lack of interest in making themselves understood by a wider public and submerge in the complex language of a close community (2010, p. 18)*

On my behalf, I would just add that, besides understanding the present, it is an economist's duty to transform it. Following this type of ideas the editorial group of the *Revista Finanzas y Política Económica,* shows in this new issue a content that expresses the effort of current researchers of the economic sciences to solve the most important dilemmas between theory and economic policy, in terms of the free market, State regulation, welfare, development and the respect for human rights.

The first part of this edition of *Revista Finanzas y Política Económica* has four research articles, initially we find the work of Pablo Herrera and Javier García Fronti, from Universidad de Buenos Aires, titled "Impact of the governmental credit on the financial system", in which they explain how the financial crisis of 2008 has placed the themes related to financial system stability and the need for understanding its regulation in current discussions. The authors put forward a theoretical model of three agents to demonstrate that the delivery of governmental subsidies is more effective if it is done through a financial intermediary, to generate, in this way, a major financial deepening.

Following this article, we find the work done by Santiago Chelala y Victoria Giarrizzo, from the Economic Sciences Faculty of Universidad de Buenos Aires, titled "Taxation Avoidance In Argentina: an experimental analysis of the efficacy of rewards and punishments to taxpayers", in which the authors present a controlled experiment whose purpose is analyzing taxpayers' behavior to determine in which cases rewards or punishments promote tax payment. They conclude that some incentives to pay taxes could be more efficient than penalties, and present some consequences for the tributary policy.

19 According to Benczes, globalization is a multidimensional process which involves political, technical and cultural fields, but from its economic perspective, it is characterized by: (a) globalization of trade between goods and services; (2) globalization of financial and capital markets; (3) globalization of technology and communications, and (4) globalization of production (2014, p. 134).

Then, we find the article written by Alberto José Figueras, Daniela Cristina, Valeria Blanco, Iván Iturralde and Marcelo Capello, from Universidad Nacional de Córdoba, titled "A contribution to the discussion about convergence in Argentina: the importance of structural changes". In this article, authors propose a sigma and beta convergence analysis of the Argentinian provinces for the 1970-2007 period, with variables related to the human capital, economies of scale, investment and tax policy. The authors try to isolate the shock effect upon the economic growth of the provinces with different productive structures to analyze its impact on the regional convergence/divergence in Argentina.

To close this first part, we find Alejandro Sáez Martín, Arturo Haro de Rosario and María del Carmen Caba Pérez, from Universidad de Almería, with the article "Towards an integrated corporative information: evidences in the industry of healthcare products", where they analyze integrated reports from companies of the healthcare industry, and compare them using the International Integrated Reporting Framework (IIRF). The authors present evidence of the existent gap between contents to include, according to the IIRF, and what writers of the current integrated reports in this industry understand.

The second part of the journal has four reflection articles. First of all, we find Jhon Alexander Méndez Sayago and Hugo Alfonso Hernández Escolar, from Universidad del Valle and Fundación Universitaria Los Libertadores, with the article titled "Long-term relation and causality and sensitivity analysis among actual wages and the labor productivity in the manufacturing sector from figures provided by regions in Colombia", where the relation between salaries and productivity is identified by unit root and cointegration tests and by vector autoregression (VAR). The authors show the productivity series and wages from 24 Colombian regions which were calculated based on information taken from the annual manufacturing survey, and they conclude that a distribution of wealth conflict exists in Colombia because changes in productivity are not reflected on workers' actual wages growths.

Subsequently, we find Mariluz Nova Laverde, from Universidad de La Salle, with the work titled "An Economical-political analysis about the balance of payments in Colombia (1994-2013)", where she shows the recent dynamics registered in the balance of payments in Colombia which correspond to the consolidation of an enclave economic model. This model has been strengthened in extractive production processes, financialization, transnationalization and denationalization of economy. She calls special attention to the need to guide macroeconomic policy towards a national sustainable development.

Then, Edwin Cruz Rodríguez, from Universidad Nacional de Colombia, presents the article "Prolegomena to live well-good living: a normative and practical evaluation", where he examines the concept of *live well-good living*, by analyzing its contributions and limitations. He also shows how this worldview, beyond the development paradigm, wagers for a poverty and wealth conception that is not limited to the accumulation of material goods, and for an economy aware of its effects on nature and the satisfaction of needs. He highlights the necessity for decolonizing knowledge.

Finally, we find Marco Antonio Merchand Rojas' work, from Universidad de Guadalajara, that is titled "Is Mexico the reproductive State of regional inequalities?", where he explains how the Mexican State, instead of reducing inequality levels, has increased them and has been promoting the generation of a more unbalanced and disassembled regional development in function of just the prevailing sectorial interests. Professor Merchand explains how the Mexican state, in these last thirty years, has shown itself just as a regulatory and sponsoring instance of an exclusive economic growth, in favor of capital and against work. He reflects upon the country's limitation to maintain or guarantee minimum conditions (economic and social), and so, to increase productivity and welfare.

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