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Notes for discussion

Abstract

This essay discusses some of the effects of the evolution of economics as discipline. The orthodox economy evolved within the frames of perfect competition, decreasing returns and modelled men as totally self centered and the automatic return of the economy to the equilibrium. Using the “physics metaphor” allows neoclassical economics to present itself as a discipline with inherently scientific rationality and as such politically and morally neutral. The experiences of Latin American countries after three decades of the instrumentation of the liberal economic shows a rather negative overall balance in terms of growth, productivity, employment and reduction of poverty and income concentration.

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On Ethics and Economics.

Notes for discussion

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To ponder on ethics and economics is a meditation exercise aiming to relate economics and the moral norms that guide human behaviour: the set of values that direct all social life, apply to all human beings and from which all duties and obligations derive. For that, it is important to think carefully about what is wrong in the economics discipline and in economic policies. They both have distanced themselves from the search for collective wellbeing and turned exclusively into tools for capital reproduction or the "rational use of the productive factors", thereby treating equality and efficiency as antagonists. That artificial dichotomy helped to enthrone a false dilemma between positive and normative economics, between economic growth and development (or progress now days in fashion).

It is the result of two facts that have defined the evolution of economics, as discipline: first, the acceptance as an economic dogma, of the allegation that humans are self-centred, egoistic individuals, totally rational and that the free market is the way to unleash all its potential. Humans are stripped of their social nature, dehumanized, reduced to their darkest side. Second, is the pretence that economics is a Science and as such politically and morally neutral.

Economics was converted from science as "systematic enquire", into "Science" a kind of religion¹. In that process, political economy was transformed and with it, economic policy lost its north. Initially, political economy was defined as a branch of the science of government by which governments organize production and the distribution of its benefits amongst all participants assuring the duty of governments is reached. And, "(T)...he object of government is, or ought to be, the happiness of men, united in society; it seeks the means of securing to them the highest degree of felicity..."².

What did happiness mean in Sismondi's times and does it in our times? It is a complex question but an implicit agreement has emerged: happiness embraces both material and

¹ Bauer, Peter, 1984. *Reality and Rhethoric: Studies in the Economics of Development*. Cambridge: Harvard University Press.

² Simonde de Sismondi, 1815, *Political Economy*, consulted 18th December 2011 at: <http://socserv.mcmaster.ca/~econ/ugcm/3ll3/sismondi/polieci>

moral elements: security, education, nutrition, health, children's and elder's, the preservation of the environment, making reality of the right to be heard and respected and the right to dissent. Equality in all these elements demand colossal investments and imply high rates of surplus as well as the political will to apply part of it to provide all the above mentioned goods to the entire population, in equal amounts for everyone and without any type of discrimination. In other words, it commands a *social pact*. These two elements, economic surplus and social pact constitute the base and the measure of development and constitute the link between economics and ethics. The economic surplus exists; the political will to a fair distribution is missing.

According to Keynes, as well as Smith and Ricardo, development is the spiritual, political and social improvement of the entire society. In "Economic possibilities of our Grandchildren"³, he suggests that, once society has solved "the economic problem, the struggle for subsistence", we can aim for the satisfaction of other more important needs, like spending more time cultivating the fine arts, since scientific progress will free humanity from the need to work until exhaustion. For Keynes, humanity has two kinds of needs: the absolute ones, food, home, health, education etc.; and the relative ones which make a person feel superior to others. Relative needs differ from the absolutes because they are never satisfied. The satisfaction of the absolute needs will allow us to dedicate our time for the cultivation of the spirit, as long as there is a cultural transformation, which rewards creative leisure and scales down the satisfaction of the relative needs. For Keynes, technological progress and productivity growth would require us to work for no more than 15 hours per week, to satisfy basic needs, as long as there were the necessary change in morality which determines the distribution of wealth, sanctions and rewards.

The political will for social justice has been fading since the end of the seventies, but especially since the eighties with the Reagan-Thatcher⁴ conservative revolution, the crumbling of socialism, the dismantling of the welfare state and the weakening of social cohesion. All these gave birth to a new morality, to the triumph of the individual rights

³ Keynes, J.M. 1930, Economic possibilities of our Grand Children, read at: randchildren"<http://www.econ.yale.edu/smith/econ116a/keynes1.pdf>

⁴ Margaret Thatcher has presented in very short sentences the essence of the conservative revolution: "New Labour was my finest creation", quoted in Palma, 2009 "*The revenge of the market on the rentiers. Why neo-liberal reports of the end of history turned out to be premature*" in Cambridge Journal of Economics 2009 33(4):829-869; doi:10.1093/cje/bep037; and : "There is no such thing as society: there are individual men and women, and there are families" consulted in <http://www.brainyquote.com/quotes/quotes/m/margareth165648.html>.

over social duties, the end of the legacy of the French Revolution which can be considered as a precursor of the well-fare state.

This new individualist morality demands from each person the maximum efficiency not only in work but even in pleasure, obliges him or her to care for his health and to look always young and fit, all the time to be in command⁵. In this new world, every aspect of the reproduction both of the economy and of social life, were put to play in the stock-exchange casino. Material progress turned out to be the goal of the study and practice of economics and the symbol of ultimate human happiness. Orthodox economics, based on the assumptions selfish rational individual and perfect markets gave the conceptual blessing for that turn, converting utility in the metric of well-being and the pillar of public policy. Utilitarianism "...fairly well captures the real ethic of capitalism. That is, it is very poor ethics, but reasonably good economics"⁶. We dispute the assertion of orthodox economics being sound and good economics. Today's global crisis, mass hunger, unemployment, environment degradation and unsustainable income concentration, dismiss that claim.

The orthodox economy evolved within the frames of perfect competition, decreasing returns and modelled men as totally self centered, despite the fact that real persons don't behave that way⁷. By doing so it got rid of the richness of the real world and transformed the abstraction into reality. Neoclassical economics pretends to explain the world with absolute laws on the premise that society is governed by similar rules as the ones found in physics, with the capability of prediction. Using the "physics metaphor" allows neoclassical economics to present itself as a discipline with inherently scientific rationality, which goes beyond the interests of social classes and displaces the distribution of income to the quicksand of social policy. Equality, employment and poverty became exogenous variables.

At the disposal of academics, politicians and public administrators, producers associations, multilateral organisms there are plenty of statistics covering all kind of topics and for almost all countries of the world, which allow constructing long time series which support the development of econometrics. With econometrics, economics appeared to win in terms of the precision of what it may apprehend. But because of what it abstracts from, it lost all relevance. In this process, macroeconomics was

⁵ A very good Picture of this culture was depicted in the film "American Psycho".

⁶ Blunden Andy, on Sen works, acceded at: <http://home.mira.net/~andy/works/sen-critical-voice.htm>.

⁷ Sen, Amartya, 1991. *On Ethics and Economics*, Wiley-Blackwell

assimilated to microeconomics and economics has become "...a branch of applied mathematics."⁸

That is why we should seriously ponder on the character of economics as a social science and on what is the economist's role, when, as professionals in a social discipline they participate, from a position in the State, in the design of economic policies. We have to think as well about the possible change in character of the economy and the role played by the economists, in the wake of changes such as the fall of socialism, the scientific and technologic revolution, the unification of the world market of goods and capital. These transformations are brandished in order to reinforce the idea of the scientific objectivity of economics and to legitimize as rational only one economic model and only a certain type of economist. In that way, the gap between economics and politics is further broadened. "(T)he economist, bearer of a legitimate knowledge, will be transformed into a public actor when he enters in the political institution network. At this moment, he links his knowledge to political power⁹.... and while participating in the definition of policies or laws, all of them, decisions of compulsory character, they have the power of imposing their will upon each one of all social relations. That is true even if the economists argue they do not belong to any party, since to affect or to promote specific interests within society is a political act. The non militancy does not guarantee the ideological neutrality, which is supposedly endorsed by the "scientific objectivity of economics".¹⁰

According to Palacios, economists have considered themselves as an instrument of modernization, which is feasible if technocrats able to manage the public matters with political neutrality move to key government positions. The intention of modernization has been to depoliticize, to bureaucratize the administration which has turned into a hotly disputed argument between technocracy (modernity) and politics (backwardness) and in the decrease in the decision power, in economic matters, of the elected authorities. Palacios adds that modernization fails when the other structures remain untouched, like in Latin America. In the face of the concentration of wealth, the market is far from perfect

⁸ "Report of the Commission on Graduate Education in Economics", *Journal of Economic Literature*, Sept. 1991, : 1035-1053. The commission was set up by the American Economics Association.

⁹ Palacios, M.A. 2005, "Knowledge is Power: The Case of Colombian Economists", In V. Fitzgerald and R. Thorp, Eds. 2005, *Economic Doctrines in Latin America: Origins, Embedding and Evolution*, Palgrave, Oxford, UK.

¹⁰ *Ibidem*

and competitive and there is no capable regulating capacity. Who will take Slim¹¹ or Televisa in hand? The economists took leadership in the redefinition of the economic borders of the state, as if these were a matter of accounting efficiency and if state-society relationships were categories that can be synthesizable in terms of the internal rate of return.

What is even more troubling is the course that the teaching of economics has taken. A Commission set up by the American Economic Association, concluded that: ‘...graduate programs may be turning out a generation with too many *idiot savants* skilled in technique but innocent of real economic issues’.¹² Economists are experts on mathematical modelling but lack knowledge. What has been scarce is a professional wisdom informed by a rich knowledge of psychology, institutional structures, historical precedents and history of the subject. This insufficiency has been apparent among those economists giving advice to governments, banks, businesses and policy institutes¹³. What is alarming is that since then this teaching bias was not revised but intensified and tends to turn economic faculties into business schools.

The export lead model and the liberation of the capital market could not allow the developing countries to progress in the industrialization because it eliminated the measures employed by the already developed countries. It was in fact, “*removing the ladder*” (Chang, 2002) which allowed England and the USA and others to ascend in industrialization and the progress in the activities with real potential to increase productivity. The manufactures have the greatest potential in technology and in productivity growth. And the increase in productivity is the basis for an improvement in wages and salaries.

Higher rates of growth are necessary since our societies have yet guaranteed full satisfaction of basic needs for everyone. Until these have not been reached, growth is necessary. Nevertheless, “Once our basic needs are met, aiming for additional wealth does not represent an efficient way to significantly increase well-being”¹⁴. Latin America and elsewhere in the developing world is far from guaranteeing the basic needs

¹¹ Carlos Slim is a Mexican business man consider by Fortune, the richest man earth. He concentrates 5.6% to total national Mexican GDP, near the income accruing to the 2 lower income deciles of national population. Televisa is the largest national TV company concentrating near 75 per cent of total TV income.

¹² Ibidem

¹³ Carta a la Reina, consultada el 15 de agosto 2009, en <http://www.docstoc.com/docs/9919280/queen2009b>

¹⁴ NEF, 2008, “Bringing real wealth onto the balance sheet”.

for the entire population, not even the minimum ones promised by the focalized poverty programs. Growth may allow everyone to develop his/her social potential and ensure the satisfaction of his/her needs, but we have to have always in mind that growth is not an end by itself, let alone, growth in exports or the control of inflation or the reduction of fiscal deficit. These are means, tools to move to the final objective of general welfare. Development and progress implies “comprehension of nature, for our use without destroying it”. It is also the knowledge and comprehension of human beings, without defining it according to reductionist theories which strip from them their fears, anguish, values, feelings, passions from their humanity.

The notion of development or progress must include the importance and dignity of work. This notion implies an improvement in the quality of life, a reorientation and revalidation of leisure, pleasure, and of “happiness”. We have to understand that “...unemployment has an effect that goes well beyond the loss of income to which it gives rise”.¹⁵

For the majority of the population, the world economy is not generating satisfactory and profitable work and the real, minimum and medium wages have intensively deteriorated. For the majority of the population, the road towards solving the “economic problem” is still a long way ahead; as the fight for survival up till now is. Or in Amartya Sen’s words, we have not achieved the necessary freedom to obtain well being, which is: “freedom from hunger, or being free from malaria.”¹⁶ Such freedom, which is essential for the quality of life depends, amongst other things, on the satisfaction of the basic needs. “Unless certain basic welfare conditions are met and resources and opportunities provided, we cannot seriously claim that society is preserving and protecting everyone’s freedom.”¹⁷

First, we must assure the right conditions for people to have the sufficient means to appropriately satisfy absolute needs. This satisfaction must not be dependent either on transfers or on private philanthropy. There will always be transfers, as there are in Sweden, or Switzerland and Germany, but in those societies, transfers are not the ones that barely save people from hunger.

¹⁵ Stiglitz on the International Commission on the Measurement of Economic Performance and Social Progress, Financial Times, 13 September 2009 <http://www.ft.com/cms/s/0/95b492a8-a095-11de-b9ef-00144feabdc0.html>.

¹⁶ Sen, A. 1993, “Capabilities and Well-being”, in Nussbaum, M. y Sen, A. 1993, *The Quality of Life*, OUP, p. 44.

¹⁷ Korsgaard, C.M. 1993, “Commentary to Cohen and Sen”, in Nussbaum, M. and Sen, A. 1993, *The Quality of Life*, OUP, p. 58.

For the first three tenths of the Latin American population, freedom of choice is invalid or extremely restricted and their voice is not heard. But even for broad segments of the middle classes their future or their children's future is not secure.

At the moment of redefining the state's frontiers, the rate of return for capital investment was chosen as the ruling axis for the economy and efficiency, and profits and competitiveness as the ruling criteria of public policies, which took pre-eminence over equity. The principle that efficiency and equity form a unit and as such they must be a matter of discussion of democratic regimes has been abandoned. Today, the debate is focused on whether with democracy the market may or may not ensure Pareto efficiency¹⁸. Equity is relegated to residual measures, out of economic policies, just to compensate for the devastation which is imposed on equity by the exclusive preference to efficiency and capital's rate of return.

Coupled to the application of the economic model and to the rhetoric of poverty relief policies, essential changes in ethics have gained ground. There is a greater tolerance towards levels of poverty and inequality which were previously rejected as absolutely and morally unacceptable. This tolerance guided the acceptance, as normal, of "precarious jobs". It is accepted as economically rational, consequently, no interventions on the labour market should be implemented, and the power of the workers to negotiate has to be eroded. These new rules were supposed to generate more employment, greater investments and better salaries. Instead, salaries have deteriorated, the wage gaps between qualified work and less qualified work have widened, the substitution-elasticity of non qualified labour has increased, the income elasticity of labour demand has been reduced and salary insecurity has increased.

It was accepted that the fiscal policy has to be neutral, not altering the primary distribution of income. But if it turns out to be necessary to modify it, it should only be done marginally, without altering rate of return of capital, measured in international terms. As the main source of fiscal income, the direct taxing was replaced by the indirect taxes, like the VAT, a regressive and pro-cyclical tax. Thus, we arrived at a minimalist welfare state. While dismantling the welfare state, the governments of developed countries have incurred in large debt and fiscal deficit to save the banks and the rich from the consequences of their policies, ill oriented and sometimes tinted of corruption.

¹⁸ E. Stiglitz, 1991: "The Invisible Hand and Modern Welfare Economics". NBER Working paper No 3641, March 1991.

In a society in progress, it is inadmissible to think that there is a natural rate of “unemployment”, but still more serious is the acceptance, as economically rational of the unemployment camouflaged in the very low productivity informality, the Colombian *rebusque*¹⁹, which in Mexico holds 64 per cent of employment. All the economically active population must enter the circuit of the modern economy in order to achieve a generalized increase in productivity and to fulfil the utopia Keynes presented. A good part of the elderly fall victim of poverty or misery, because they never contributed to social security or because the pensions are not enough. It is important to create feasible working opportunities for the “retired”, only then, they will have a dignified and independent life, with affection and respect.

Any particularity in the notion of development must begin with acknowledgment of the basic deprivation experienced by a large part of society. It has to address, in first place, the quantitative and qualitative deficit in the access to basic needs. The deficit in the material well being is overpowering.

This concern about the definitions of development is framed within the concept of modernization, which assumes that society can be integrated by the supply of welfare and political spaces created by the market. But, I wonder, is this not a strategy which comes from developed countries which already have solved “the economic problem” and can concentrate their attention on other problems, always centring their solution in GDP growth and market signals?. [As we have witnessed once and again, growth, although needed, by it self is not sufficient to guarantee social and economic development.](#)²⁰

From the economy’s point of view there is a lot to do: to release macroeconomics from the dark ages; to place as the focus point of the policy-making the problems derived from the concentration of income, and inequality. The reduction of inequality, in wealth and income, must be the immediate and principal concerns of economists and the main political objective. But it has to be more than just saving the poor from their misery with minimum well being.

¹⁹ Rebusque: Colombian world meaning “pickup jobs to escape poverty.

²⁰ See, for instance: Puyana A. J. Romero, 2007 “Development without Productivity Or Job Expansion: Mexican and Latin Observations. Capítulo V in: *Imitiaz Hussein, Community, diffusion and North American Expansivness: the Political economy of Flux*, ISBN 9789688596968. UIA, México; A. Puyana, 2011. "Economic Growth, employment and poverty reduction: A comparative analysis of Chile and Mexico with references to Argentina, Brazil and Colombia." en *Strategies against poverty: designs from the north and alternatives from the south*. Buenos Aires: Consejo Latinoamericano de Ciencias Sociales-CLACSO ISBN: 978-987-1543-63-2

In my research, I think that I have managed to establish the reasons why liberalization of the economy and neo-liberal structural reforms, by simply eliminating government interference in markets and leaving untouched the concentration of property, production and distribution, will only reduce actual growth potential and exclude progress for a large part of the population. Due to the quality of the jobs created and the reduction of the GDP elasticity of employment, even during the spells of greater growth a considerable reduction of inequality and poverty did not take place. There is no direct and strong relation between trade liberalization and economic growth. There is evidence, for the period 1980-2008, of indirect, but not meaningful relation between liberalization of the economy and GDP growth²¹. It is necessary to study the way the economic policies ought to be changed. That need is even more pressing in the wake of the 2008 crisis

What do we learned from the two hundred years of Mexican independence

In terms of the relation between economics and ethics Mexico provides interesting lessons. In the two hundred years of independence and one hundred years after the revolution, Mexico has experienced progress in many areas. At the end of the seventies of the XIX Century a truly secular state was established. This liberal regime preserved and institutionalized the extreme inequality created in during the Spanish Colonization and which Humboldt defined as the most extreme in the world, not to be found in any other English dominium or in Hindustan²². The Mexican revolution was an attempt to remedy some of the problems inherited from colonial times. To what extent it achieved that goal is under scrutiny. We can agreed that there has been progress, but progress has been unequal and with ups and downs. In economic growth, industrialization and

²¹ Puyana, A. 2011a. "Economic Growth, employment and poverty reduction: A comparative analysis of Chile and Mexico with references to Argentina, Brazil and Colombia." en *Strategies against poverty: designs from the north and alternatives from the south*. Buenos Aires: Consejo Latinoamericano de Ciencias Sociales- CLACSO ISBN: 978-987-1543-63-2;

Puyana, A. 2011b , "Economic growth, employment and poverty reduction: A comparative analysis of Chile and Mexico", ILO Employment Working Paper No. 78

²² Humboldt, A. 1822, *Ensayo Político Sobre el Reino de la Nueva España*, consulted December 24th 2010 en: http://www.antorcha.net/biblioteca_virtual/politica/humboldt/indice.html

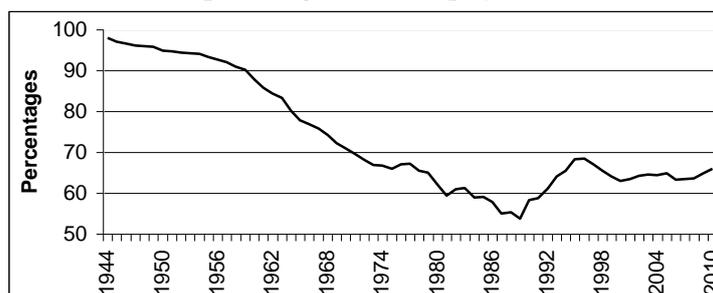
inequality and poverty reduction Mexico did registered important progress since 1940 up to 1980. Since then, clear recoil took place. In the last three decades of the XX century and in the first decade of the XXI century Mexico has experienced retreat rather than progress. The Human Development Index gives clues that from an international perspective Mexican development, during the last decades, is not outstanding. While informal employment grows constantly and poverty resists to fall, income concentration remains extremely high, constraining economic expansion and weakening social cohesion. That all takes place under the umbrella of fine-tuned orthodox macro economic models, repeatedly praised by international organizations and crafted by economists with PHD of the most famous universities of the USA and Europe.

Mexican political economy gives preference to capital over work; to workers organized in unions or linked to technology-intensive activities and to foreign capital; to cities over rural areas. It replaces social universal rights with the focalized conditioned cash transferences to deserving extreme poor individuals, a social policy inspired in the XIX century concept of charity and, by given tax exemptions, stimulates philanthropy as a way to reduce poverty and inequality.

The following few data will give a concrete idea of what I mean: Over 60 per cent of Mexican working force is attached to the informal economy, with no social security or health insurance (Table No. 1). Minimum real wages have deeply deteriorated since the reforms started in mid 80s and poverty incidence is just a few points below the level reached in 1980 (Tables No. 2 and Table 1). Democracy, as it has been reduced to the formality of elections, does not guarantee that the voice of the majority is heard. On the contrary it has been ignored when the voice of the majority does not conform to the interests of the mighty ones, as it happened in 1988 and again in 2006.

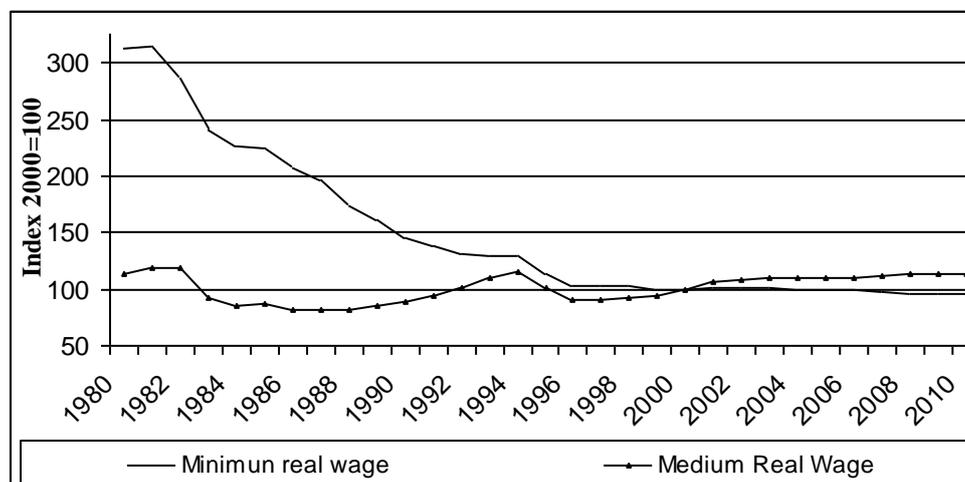
Graph No. 1

Mexico. Informal²³ Employment. 1940-2010
In percentage of total employment



Secretaría de Trabajo y Previsión Social. 2010. “Indicadores Estratégicos de Ocupación y Empleo, 2005-2010” accessed at <http://www.stps.gob.mx/DGIET/web/ENOETRIM/nal.xls>

Graph No. 2
Average Real Wages and Minimum Real Wages 1980-2010
(Index 2000 = 100)



Source: For real average wages, own calculation based on ECLAC, <http://websie.eclac.cl/infest/ajax/cepalstat.asp>.
For Minimum wages, 1980-1990, based on ECLAC op cit. 1990-2010 own calculation based on Comision de Salarios Mínimos http://www.conasami.gob.mx/pdf/salario_minimo/sal_min_real.pdf

Table No 1
Mexican Households under Moderate and Extreme Poverty
(Percentages of total households? 1970–2008)

	Poverty			Extreme Poverty		
	Total	Urban	Rural	Total	Urban	Rural
1970	34,0	20	49	12	6	18
1984	24	28	45	11	7	20
1989	47,7	42,1	56,7	18,7	13,1	27,9
1994	45,1	36,8	56,5	16,8	9	27,5
1996	52,9	46,1	62,8	22	14,3	33
1998	46,9	38,9	58,5	18,5	9,7	31,1
2000	41,1	32,3	54,7	15,2	6,6	28,5
2002	39,4	32,2	51,2	12,6	6,9	21,9
2004	37	32,6	44,1	11,7	7	19,3
2005	35,5	28,5	47,5	11,7	5,8	21,7
2006	31,7	26,8	40,1	8,7	4,4	16,1
2008	34,8	29,2	44,6	11,2	6,4	19,8

²³ Informality consists of working population, without both social security and health insurance and self employees.

Source: Author's calculations based on ENIGH, third quarters 1989, 1992, 1994, 1996, 1998, 2000 and 2008, consulted at:
<http://www.inegi.org.mx/est/contenidos/proyectos/encuestas/hogares/regulares/enigh/default.aspx?>
and ECLAC, Panorama Social 2010, accessed at:
<http://www.eclac.org/cgi-bin/getProd.asp?xml=/publicaciones/xml/3/45173/P45173.xml&xsl=/dds/tpl-p/p9f.xsl&base=/tpl/top-bottom.xslt>.

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