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PRESS RELEASE

The spread of Keynesian economics: a comparison of the Belgian and Italian experiences

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Keynesian economics dominated economic thought and macroeconomic policy-making in the 1950s and 1960s. However, the diffusion of Keynesian economics has been uneven. In this paper, we compare the spread of Keynesian economics in two continental European countries: Belgium and Italy. It were two countries where Keynesian economics gained ground only relatively late and which, moreover, were characterised by significant regional imbalances. The purpose of the study is to get a better understanding of the factors determining the dissemination of economic ideas, both in the academic world and in policy-making. The research department of the National Bank of Belgium has already built up a considerable experience with this type of analysis, especially in the area of European monetary integration¹.

In this paper, we do not go into the debate as to how the General Theory (or other works of Keynes) was received in Belgium or Italy. We focus on the post-World War II period and on "Keynesian economics", taking as the main message of Keynesian economics that the market is inherently unstable and that the government has a key role in economic life in steering effective demand. We further follow Coddington's distinction between "hydraulic", "disequilibrium" and "fundamentalist" Keynesianism². Coddington characterises the "fundamentalist" Keynesian approach by a rejection of neoclassical microeconomic theory and general equilibrium theory. Cambridge (UK) was its main centre. The "hydraulic" approach centres on the belief that there are stable relations among the various flows in the economy, which provide a basis for active government policy. Important elements of the hydraulic approach were also the "revolutions" in national income accounting and econometrics. Econometric model-building was its core activity. In Europe, Tinbergen played a seminal role, also in the world of economic policy-making. The "disequilibrium" approach tries to reconcile Keynesian ideas with general equilibrium theory, trying to bring it back to the core of mainstream economics. In this approach, the focus is on situations in which the market is not in equilibrium and on the ensuing process of trading at disequilibrium prices and quantity adjustments.

Italy and Belgium were two countries where Keynesian economics gained ground only relatively late, not only in comparison with the United Kingdom or the United States, but also compared to several continental European countries like the Netherlands or the Scandinavian countries. In this paper, we investigate the main elements which were important in the spread of Keynesian economics in Italy and Belgium.

There were very important similarities between Belgium and Italy: (1) a strong position of neo-classical (Austrian) economics in academic life, which slowed down the penetration of Keynesian ideas; (2) international organisations, especially the Organization for European Economic Co-operation, played an important role in the breakthrough of "hydraulic" Keynesianism; (3) the rise of Keynesianism especially among economists who were concerned with the poorer parts of the countries, linking government intervention and regional imbalances. The most important difference was that Belgium was largely in the mainstream of Keynesian economics (hydraulic and disequilibrium Keynesianism), while in Italy "fundamentalist" Keynesianism was much stronger, especially in the academic community.

¹ See, for instance, Ivo Maes, On the Origins of the Franco-German EMU Controversies, Working Paper, n°34, Research Series, National Bank of Belgium, July 2002, published in the *European Journal of Law and Economics*, Vol. 7, No. 1, January 2004, p. 21-39 and Ivo Maes, *Economic Thought and The Making of European Monetary Union*. Cheltenham: Edward Elgar, 2002.

² Coddington, A., 1976, Keynesian Economics, the Search for First Principles, *Journal of Economic Literature*, Vol 14, No 7, pp. 1258-73.

The breakthrough of Keynesian economics in Belgium and in Italy came in areas which were more closely related to the policy-making process: correcting regional imbalances, setting up national income accounts and building macroeconomic models. In both countries, the creation of the European Economic Communities provided a common project for free-market economists and Keynesians. It led to a "holy alliance" around the ideas of European integration and economic growth. This was cemented by the strong economic performance of both countries in the 1960s.

This study further shows that there were more similarities between economists in Belgium and Italy who were involved in the policy-making process than between those in the academic world. A reason is probably that economists involved in policy-making are more focused on understanding the "real" world. This fitted in with hydraulic Keynesianism, with its focus on national income accounts and econometric model-building. Moreover, there were quite frequent contacts among economists in the policy-making process, especially through the O.E.E.C. In the academic world, the development of Keynesian economics was quite different. While Belgium was mainly in the mainstream of Keynesian economics, in Italy fundamentalist Keynesianism was much more influential. So, the developments in academic economics were more in line with the general orientation of society (e.g. more to the left in Italy). Also the international academic contacts were quite different: in Belgium they were stronger with the US, while in Italy links with Cambridge UK were more influential.