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PRESS RELEASE

The young Lamfalussy: an empirical and policy-oriented growth theorist

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Alexandre Lamfalussy has been highly influential in the process of European monetary and financial integration. He is especially known as the first President of the European Monetary Institute, the predecessor of the European Central Bank, and as the Chairman of the Committee of Wise Men, which developed a new approach for European financial market regulation. In this paper, the academic work of the "Young Lamfalussy" is analysed. This was focused on growth and investment theory and Belgium's and Europe's growth patterns in the post-war period. It ties in with the general post-war period preoccupation with economic growth. The Research Department of the National Bank of Belgium has already built up considerable experience with this type of analysis¹.

In this paper, the focus is on Lamfalussy's two books from the early 1960s. In "*Investment and Growth in Mature Economies. The Case of Belgium*", Lamfalussy introduced the concept of "defensive investment", aimed at rationalising production. However, in the medium to long run, the scope for productivity increases of defensive investment is limited, restraining the growth potential of the economy as a whole. In "*The United Kingdom and the Six. An Essay on Economic Growth in Western Europe*", Lamfalussy emphasised virtuous (or vicious) circles, in which stronger export growth promotes higher investment, which in turn strengthens productivity and investment, further reinforcing exports. His ideas quickly became influential and provoked considerable debate. Also in the recent economic history literature on Europe's post-war economic growth, his work is still regarded as important.

Naturally, Lamfalussy's analyses are far too subtle to be summarised in a few pages. However, they fit broadly into the Keynesian tradition. His analysis of vicious and virtuous circles clearly showed that the free market economy was not stable and self-adjusting, a clear indication of a Keynesian *Weltanschauung*. Lamfalussy's analytical frameworks were often inspired by Keynesian growth models. In his policy conclusions, he was a clear partisan of more planning in economic life, also giving the government a role in influencing the composition of investment. Like many other progressive economists of the time, Lamfalussy was clearly more interventionist than the (textbook) Keynesian view of steering effective demand. During his later life, Lamfalussy, would gradually become more sceptical of planning and Keynesian macroeconomic policies. He would put more and more emphasis on stability-oriented policies, paying greater attention to structural micro-economic policies.

However, certain elements, typical of Lamfalussy's later work, were already clearly present in his early writings, especially a strong European conviction and an eclectic approach towards economics. From his student days, Lamfalussy was a convinced European. In his writings, he argued in favour of strengthening European integration. In the monetary area, he favoured the creation of a European Reserve Fund, as advocated by Triffin. However, he took a more balanced position than Triffin, stressing the need to strengthen policy coordination as well. There is also a very strong continuity in Lamfalussy's approach towards economics. It is an eclectic and pragmatic approach, blending economic theory and empirical data beautifully to elucidate crucial policy problems, very much in line with the approach of Dupriez, his teacher at Louvain. He described it himself as a "semi-empirical (but not econometric), semi-theoretical (but not mathematical) approach". Moreover his focus is always on crucial policy problems. He contributed to bridging "the deep gulf between the day-to-day discussions of vital economic policy issues and the more serene but necessarily abstract academic studies".

¹ See, for instance, Ivo Maes, "The spread of Keynesian economics: a comparison of the Belgian and Italian experiences (1945-1970)", Working Paper, n°113, Research Series, National Bank of Belgium, April 2007, published in the *Journal of the History of Economic Thought*, Vol. 30, No. 2, Dec. 2009, pp. 491-509, and Ivo Maes, *Economic Thought and The Making of European Monetary Union*. Cheltenham: Edward Elgar, 2002.