ITALIAN PUBLIC ECONOMISTS AND KEYNES

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1. Hostility and unwillingness to understand

Until relatively recent years, Keynes’ ideas and those of the Keynesians failed to win a following among Italian economists. This was the way things stood at the close of the 1930s, when the Keynesian approach first began to win international acceptance. And for many years after the end of World War Two there was little change. In 1939, Luigi Einaudi prepared a reading list for Ernesto Rossi – in internal exile on the island of Ventotene. The General Theory took the sixth place on the list, thus being excluded from the list of “four books that no economist can regret having bought”. “As usual”, Einaudi wrote, “it makes you angry, though it’s interesting”. For a long time, as we will see, this was a good example of what Italian economists thought about Keynes. The fact is that Italian scholars’ mistrust of Keynes and their unwillingness to understand him lasted for many years. If we measure a theory’s success by its place in university textbooks we see that with a few sporadic exceptions [Di Fenizio (1949), Marrama

1. The entire list is reprinted by Faucchi (1986), pp. 229-6. The first five positions are taken by the following works (Einaudi’s comments between brackets): 1) Jacob Viner, Studies in the Theory of International Trade (“Very useful, erudite, written by one of those truly first class young American economists”); 2) Henry Thornton, An Enquiry into the nature and effects of the Paper Credit of Great Britain (“The book dates back to 1802 but is wonderful. The introduction is just beautiful”); 3) Frank Knight, Risk, Uncertainty and Profit (“Together with Viner, Margot and just a few others, Knight is one of the leaders of the young [...] generation of American economists”); 4) Carl Menger, The Collected Works (“Menger’s works are wonderful”); 5) Arthur Marquet, The Theory of Prices (“Very hard work but a sure guide through the jungle of monetary theories”). In 1939 Marquet’s work had the doubtful honour of a (positive) review from Einaudi. The same review discussed the General Theory (which, Einaudi judged far less positively) and Charles Rist’s Histoire des doctrines relatives au crédit et à la monnaie which took seventh place in the reading list (and which Einaudi hailed for its orthodoxy). On this point, see infra, n. 1. According to Bucchi (1985, p. 24), Ernesto Rossi, first read the General Theory, and then threw it, “metaphorically, in the waste paper basket”.

2. For a useful review of the attitudes of Italian economists, from the beginning of the 1950s, see Baccich Andreoli (1953). The author points to strong differences in the attitudes of economists inside and outside Italy. In the beginning the General Theory “did not please [...] When the book appeared there was not a single enthusiastic review and many were strongly critical”. But outside Italy this attitude, was, for the majority of economists, purely temporary; even economists who opposed his ideas “played a very important role in criticizing and criticizing certain of Keynes’ positions and recognized the originality of his contribution”. In Italy things went very differently: “in Britain and America [...] the General Theory gave rise to intense debate; in Italy it was largely ignored [...] With few exceptions there was a great silence broken only by the voices of the opposition” (ibid., p. 94).
2. Marginalism and Economic Liberalism

In our opinion, two main factors had profoundly influenced the twentieth century Italian economic thought. The first was the Italian economists’ strong preference for

1. As late as the early 1960s, the textbook for Marzam’s introductory economics course in the Economics and Business Faculty at Rome University was Bresciani Turroni’s old manual (1940).

2. As early as 1947, just one year after Keynes’ death, Paul Samuelson (1947), p. 142 felt able to write, in a comment on the General Theory, that ‘finally, and perhaps most important from the long-run standpoint, the Keynesian analysis has begun to filter down into the elementary textbooks, and, as everybody knows, once an idea goes into these, however bad it may be, it becomes practically immortal’. A year later, Lawrence Klein, Samuelson’s student and, like Samuelson, a future Nobel Prize winner, wrote his famous book on the Keynesian Revolution.

3. Italian economists have explored this issue more than once. In 1976, for example, the eighteenth meeting of the Società italiana degli economisti discussed Keynesian theory forty years after (after the publication of the General Theory). One of the papers was read by Giuseppe Di Nardi (1977). As we will see, Di Nardi was one of many Italian economists who distrusted Keynesian ideas. Hostility often went hand in hand with poor understanding. If we compare Di Nardi with a younger, more up to date and less hostile economist such as Ignazio Misiu, who also presented a paper at the conference, the comparison is embarrassing for Di Nardi. A more balanced evaluation emerged from a 1983 Keynesian centenary conference at Florence University’s Faculty of Economics and Business. But even on this occasion, many speakers were fundamentally hostile to Keynes. See Baccetti et al. (1984). It was during this conference that Giacomo Bacciotti (1984) described the difficult relationship between Italian economists and Keynes’ ideas as a problem of “acculturazione”. It was an underestimation.

4. But there were exceptions: at least two major British economists did read Italian. The first of these was Edgeworth, who was an attentive reader of the Giornali degli economisti. Just before his death, Edgeworth discovered Sraffa’s work on this journal, invited him to Cambridge and encouraged him to write for the Economic Journal. A second British economist who read Italian was Hicks. In an autobiographical study (Hicks 1979), he recalls that when he was a student at the London School of Economics in the early 1930s, his supervisor advised him to study Pareto, precisely because he was able to read Italian.

5. From 1940 to 1950, Einaudi wrote for the Economia. Einaudi also corresponded directly with Keynes. On February 19, 1946, for example, Keynes wrote him to say that he had asked his publisher to send him a copy of the General Theory (Pavetti 1986, p. 260). Bresciani Turroni’s important study on inflation (1931) was translated into English as early as 1937 [Bresciani Turroni 1937]. Reprints continued to appear until the 1960s and the study is still cited today.
marginalism in theory and economic liberalism in policy. During the early years of the century men like Vilfredo Pareto, Maffeo Pantaleoni, Antonio De Viti de Marco and Enrico Barone had dominated Italian economic thinking. For these economists economic liberalism was second nature. And as often happens the economists of the inter-war years were 'imprinted' with the attitudes of their predecessors.

The second factor – at least during the period between the two wars – was the influence of the Fascist regime. In the early years many Italian economists sympathized with or joined the Fascist movement. This was true for grand old men like Pareto or Maffeo Pantaleoni10. And for a number of years it was also true for Einaudi11. In reality many Italian economists gave temporary support to Fascism because of its opposition to Giolitti’s system – which they saw as over-interventionist in the economy. Fascism, they believed, could help to re-establish a society based on political and economic liberalism. Even a sincere democrat such as De Viti de Marco used this as a justification. A few years later came his bitter admission that he had been terribly wrong12.

With the advent of Fascism the political and cultural climate became hostile to independent-minded Italian economists. This is particularly clear in the case of Piero Sraffa. In 1926 Sraffa won a professorship at the University of Cagliari but decided, instead, to move permanently to Cambridge where he found a job as a Librarian at the Marshall Library.13 Sraffa, though the son of the rector of Bocconi University, was a man of the left, close to the communists and a friend of Gramsci. This might explain why he preferred to stay in Britain. Antonio Graziadei was another left-wing economist who had participated in the foundation of the Communist Party in 1921. He too was forced to abandon not only his professorship but also his parliament chair and was sent to internal exile. But none of these considerations applies to Umberto Ricci, a brilliant economist in the Einaudi school who sympathized with the original spirit of Fascism. Ricci taught in Rome and occupied the chair that had once belonged to Pantaleoni. But in 1928 the government took away his professorship and forced him into a long period of exile – all because of a letter to Ugo Spinto [see Ricci (1928)] published in a scientific journal, in which he defended the abstract nature of economics, arguing that its task was to explain facts rather than offering recipes for government. Ricci recovered his professorship only in 1946 – shortly after the restoration of democracy. He died soon after, while he was coming back to Rome.


9. In his later years Pareto contributed to the Fascists’ theoretical journal, Gnomica; in 1923, just before his death; he was nominated senator. Pantaleoni took part (as a minister) in D’Annunzio’s Fliment adventure. He too was nominated senator in 1923. In 1924, just before dying, he voted for Mussolini in the parliamentary vote of confidence following the Matteotti Affair.

10. A few days before the March on Rome, Einaudi wrote an article for the Corriere giving a favourable account of Mussolini’s ‘anti-state’ speech at Udine. In the article he argued that ‘the Fascist program is the liberal one of the “classical tradition”‘. In an article for the Economia, a few days after the March (November 2, 1922) he repeated the same view. Moreover Einaudi supported the economic policy of De Stefani, who had become Minister of Finance in the Mussolini government, and whose program contained a number of free-market elements.

11. The victorious [Fascist] party re-established public order, replaced the State, which had practically vanished, and gradually moulded it in its own anti-liberal, anti-democratic image” [De Viti de Marco (1940), p. 246]; In 1921 De Viti abandoned university teaching. He was one of (only) twelve professors who refused to swear loyalty to the regime.

12. The twenty years between the wars saw a widening gap between the interests of Italian economists and those of their foreign colleagues. Perhaps the most important exception was Piero Sraffa. Particularly significant were his two studies on Marshall [Sraffa (1926)] and on perfect competition [Sraffa (1928)]. The latter was published on the Economic Journal; Kaldor (1985) has conjectured that the translation was by Keynes himself.
Departures such as those of Sraffa, Graziani and Ricci impoverished Italian economics. And they were not the only ones. A few years later - as Fascist rule approached its end - the introduction of the "racial laws" led to further terrible losses. With hindsight the greatest was probably that of the young Franco Modigliani. But his case was not the only one. The racial laws hit economists of all ages, regardless of status and political ideas. Jewish economists of Einaudi's generation included Riccardo Bachi, Gustavo Del Vecchio, Marco Fanno, Giorgio Mortara and Gino Luzzatto. All were forced to leave the university; several went abroad. A similar fate met a number of younger scholars such as Giorgio Fisà, Franco Momigliano and Renzo Fubini.13

We should not be over-surprised at the lack of any public reaction to this attack on the best economic thinkers of the time (and on freedom of thought and expression in general). A good number of Italian economists and academics had cut their liberal roots and converted to "corporatism" [De Cecco (1981), p. 248]. Those seeking an academic career had little choice: unless they published on corporate economics they had no hope of winning a professorship. But at least part of the support for corporativism - such as that of Luigi Amoroso or Francesco Vitò - was the fruit of genuine conviction. For many economists corporative economics was a new frontier in economic science, in clear contrast with the traditional approach.14

A number of Italian economists took a different line, adopting what one might call a policy of passive resistance. Once again Luigi Einaudi is a good model of the prevailing tendency. While continuing to favour economic liberalism these scholars concentrated their research in areas that posed few political risks. As De Cecco has put it, "The most prestigious chairs were occupied by pure economic liberals who watched, impassively, the destruction of the liberal state, hoping to wait out the brief passage of the corporativist meteor and to start again where they had left off - when Benedetto Croce's 'Invasion of the Hylæus' had passed through" [De Cecco (1981), p. 248]. Many such as Fanno and Del Vecchio, made as few compromises as possible, making concessions in form to safeguard the substance. They were silent, reluctant Fascists. It was almost impossible for the Fascists to attack someone like Einaudi. But even he was forced to almost completely abandon his role as a journalist and as an educator of public opinion. He took refuge in abstract, theoretical studies, where economics is discussed as a science of means, rather than ends. For the Einaudi of this period scientific discourse should be neutral and objective regardless of the ideology and political preferences of the scholar. It was an approach that Einaudi could use to defend orthodox traditional theory against attacks from scholars proposing a corporative reconstruction of economic science.

In short, the various schools of Italian economic thought during the twenty years of Fascist rule withdrew into their shell, cutting themselves off from cultural develop-

13 Fisà and Momigliano returned to Italy after the war. Fubini, for his part, met a tragic end, dying at Auschwitz in 1944, when he was just forty years old. Some economists tried to help their persecuted colleagues. Sergio Steve (1990) recalls Graziani's efforts, as well as support from industrialists and bankers such as Adriano Olverini and Raffaele Mantoli. But in reality public expressions of solidarity were rare. One was from Attilio Cabiati and, of course, it cost him his professorship.
14 As might seem logical, converts to Fascism were particularly numerous among scholars of public finance. This list with corporate economics involved such relatively important figures as Fasiani (who probably acted to favour his career) and Graziani, who was the head of the most important school of public finance of the period. It was Graziani who trained the Catholic Enzo Vanoni and the Marxist Antonio Peiretti - two economists of very different persuasions and both anti-Fascists. The general tendency also involved lesser scholars - such as Lello Gangemi - who, before his arrival in the university, had been De Stefani's chief of library. When the Fascist regime came to an end all of these scholars reconverted to free-market views.
ments elsewhere in Europe. Outside pressure from the regime strengthened this tendency. Fascist cultural policy was hostile to the kind of thinking being developed on the other side of the Alps and pressed intellectuals to keep in line with corporativist and ‘autarkic’ models. But the attitude of academic economists also contributed: withdrawal from the outside world was seen as self-defence – a safe asylum in difficult times. Economic liberalism ended up as a defence of good, old-fashioned economic orthodoxy against the corporativist degenerations of the ‘Hyksos’. It provided a theoretical justification for rejecting the state’s increasing role in the economy and for refusing to approve the regime’s political decisions or to collaborate in their execution. Economic liberalism became, in other words a banner – a symbol of passive resistance; it provided economists with a low-key means of protesting their anti-Fascist beliefs and of rigorously defending the dignity of science.  

There were many reasons why a large majority of Italian economists failed to understand Keynes’ ideas or were outrightly hostile: the general political and cultural climate of the inter-war period, the weakening of contacts with scholars abroad, the atmosphere within Italian universities, the tendency to defend traditional theory against the new aberrations of corporativist economics, the withdrawal into economic liberalism as a defence against economic interventionism and autarky. In short, Italian economists’ lack of knowledge and good intentions put them in a position where they were simply unable to understand Keynes. In sum, to defend healthy behaviour they opposed healthy theories, because they feared that such theories would be put to unhealthy applications. The fact remains, however, that many of their arguments against Keynes – such as those advanced by Einaudi and Bresciani Turnori – were based on hopelessly outdated theory and showed a remarkable unwillingness to understand his ideas. At this point it is useful to look at the question in greater detail.

3. EINAUDI AND BRESCIANI TURRONI

Let us begin with Einaudi. In sect. 1 we reported his cursory summing up of the General Theory for Ernesto Rossi. The review of the work that he published in 1939, in the Riv-

15. At times the resistance was more explicit and the banner was raised with greater courage. In May 1943, when it was still not clear that the Allies were going to win the war, Giovanni Demaria spoke to a conference on economic prospects for the post-war period. The audience consisted ‘mainly of pro-government, pro-autarkic experts and academics’. In his speech Demaria argued for free trade and the unification of European markets. Naturally he was accused of boycotting the war effort and of supporting “Jewish economics” and after the speech the Roman authorities pressed him to justify his behaviour. Immediately after September 8, 1943, Ein audi himself chose exile. At the end of the month, at the ripe old age of seventy, he walked the rough trails of an alpine pass and crossed into Switzerland (Rogano 1996)).

16. In the first university textbook, clearly inspired by Keynesian ideas, Ferdinando Di Fenizio (1929), who was also one of the first Italian Keynesians, argued that there were several reasons for the unpopularity of Keynesian ideas in Italy (and for the opposition to which they had given rise). One of these, he argued, was a sort of mental laziness (especially among older economists). Other reasons included the well-known difficulty of Keynes’ text and the attachment to neoclassical orthodoxy of the majority of Italian economists: “they saw themselves as anti-heretical disciples of the classical [authors] and therefore immediately adopted the anti-Keynesian position.” (Di Fenizio 1929), p. 385. (Note that, like Keynes himself, Di Fenizio uses the term “classical” to refer to what we would now call “neo-classical” authors). This is basically the same argument we have adopted in this paper. The point is made even clearer by a comment from Bacchi Andreatti. According to Bacchi, “it is difficult to separate economic freedom from political freedom, at least beyond certain limits. The attachment of these economists to the classical theory – based on free competition with limited intervention by the state, reflected their implicit hostility to theories whose acceptance, in their opinion, would have implied the acceptance of economic policies consistent with the theory and that, sooner or later, would lead to increasing state control over economic activity and a gradual erosion of civil and political liberties” (Bacchi Andreatti 1951), p. 944). The only unusual point in this citation is the way it describes what actually happened in Italy between the wars as though it were a purely hypothetical danger for the future.
ista di storia economica" was fuller and more lengthily argued but reached the same conclusions. Here too Einaudi came down firmly on the side of orthodoxy, strongly defending the Quantity Theory against Keynes's theory of liquidity preference. Einaudi's critique is couched in no uncertain terms: Keynes, he argues, takes hoarding as the deus ex machina of the current economic system and ends up by confusing cause with effect.

In Einaudi's view there may be only periods of crisis and uncertainty where Keynes's ideas are valid; he does not think, however, that they have anything to do with normal situations when the economic system is working properly (see Einaudi [1938], pp. 154-6). In later years, this line of argument (that Keynes's theories are valid only in historically determined, pathological situations) was to be followed by many Italian commentators. According to Einaudi, the economic difficulties of "normal" times are due not to an excess but to a lack of saving. This was not a new argument. In 1933 Einaudi had reviewed The Means to Prosperity, a famous essay in which Keynes argued that a program of public works, financed by public lending, could stimulate aggregate demand, and attacked balanced budget dogma. Einaudi entitled his review "Il mio piano non è quello di Keynes" (My plan is not Keynes's plan) [Einaudi (1934a)]. In the review he argues against Keynes's analysis, proposing the traditional view that saving must precede investment. It was this review that contained his famous remark that "without a bare you can't make hare pie" (p. 281) -- a sure proof of his complete failure to understand the multiplier. It was a failure that continued to annoy Federico Caffè (1987), even many years later.

The theory of the multiplier -- or to be more precise, the way in which Italian economists interpreted such theory -- is of obvious relevance to the central theme of this paper, namely the attitude of Italian economists to Keynesian policies for the stabilization of aggregate demand. It is useful, therefore, to go into the issue in greater depth, treating it as a kind of leitmotiv in our exploration of Italian interpretations of Keynesian ideas. As far as concerns Einaudi there is little left to be said. We will limit ourselves to two final observations. First, we note how often Einaudi associates the concept of the multiplier with public works. And second, his belief that these cannot be effective. In a paper for La Riforma sociale [Einaudi (1938)], in the issue immediately following his review of the The Means to Prosperity, Einaudi argued that

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17. As we have already mentioned (see note 1), Einaudi's article reviewed three books, among which the General Theory. The first book covered by the review was Arthur Marger's. In 600 pages were, as Einaudi (1934a), p. 133) immediately observed "from the first to the last, a single sustained polemic" against Keynes. The book failed to leave any significant trace in later economic thinking.

18. For critical comments by Italian economists on the "very limited validity" of Keynes's analysis see, once again Bacchi Andersen (1933), p. 941, who cites the arguments of a number of Italian scholars of the period, including Federico Brocacci Tironi, Resta and Coppola d'Anna.

19. "I use the wordaggio (essay) because I have not been able to find a better word to translate the English "rare" or the French "pamphlet". Butaggio is a poor translation for the concept of a text, deliberately conceived as a political or an economic weapon -- a short vehement piece of writing used to fight a practical battle or to declare theoretical principles. The economic literature -- the great economic literature -- is typically composed of aggio. If someone were to write a dictionary of discoveries in economics, citing the first references to each of these discoveries, the list would include many shorter saggi than large books. It is in the past we used to refer to short, highly significant books as libelli, but now we can no longer do so because of the improper way this word has been used" [Einaudi (1935a), p. 279]. (In archaic Italian libelli means simply a "little book"; in more modern usage it refers to a violent, usually anonymous pamphlet, often written with the deliberate goal of creating a scandal).

20. In old fashioned countries and for old fashioned economists -- like this author -- the answer to the question, "where can I find ten billion?", is: "from savers." [Einaudi (1938), p. 281].
one-off expenditure (such as expenditure on public works) could never produce permanent effects.

As further proof of Einaudi’s influence we observe that both of these points (the analysis of the multiplier as an analysis of the effects of public works; the argument that one-off expenditure cannot have permanent effects) return in many later Italian works. The first of these was Bresciani Turroni’s famous 1939 study of multiplier theory, published by the Rivista bancaria. The paper takes as its starting point Kahn’s 1931 paper on the Economic Journal21 and begins by posing the question: “Can public works create secondary employment?” (p. 91).

Bresciani Turroni’s treatment of the multiplier mechanism is at a much higher level than Einaudi’s. And yet, here too, the author’s understanding sometimes fails him. Bresciani Turroni argues, for instance, that the multiplier “would not function if public works were financed through ordinary tax revenue or by special taxes and contributions. In this case everything would be reduced to a shift in demand from certain categories of individual to others” (ibid., p. 91). At the time Bresciani Turroni was writing, several years before 1945, Haavelmo had not yet published his work on the multiplier effects of a balanced budget [Haavelmo (1945)]; a study which would give rise to a major debate in Econometrica22. But as late as 1953, Bresciani Turroni reprinted his 1939 paper, without the least revision, in a volume of Studi Keynesiani, edited by Giuseppe Ugo Papi [Papi (1953), pp. 89 ff.].

The other significant lapse in understanding in Bresciani Turroni’s article was the failure to comprehend the difference between the static and the dynamic multiplier23. The substance of the article is based on the idea that the repercussions of an initial expenditure are not immediate. According to Bresciani Turroni this means that the results in terms of new (secondary) employment will depend on the size of the lag separating spending and the effects of the expenditure. The author uses numerous numerical examples to explore the implications when the marginal propensity to consume is equal to one. According to Bresciani Turroni this is the only case when the increase in employment will be permanent; when the propensity to consume is less than one the increase in employment will, he believes, be merely temporary. It is hardly worth pointing out that these results depend on Bresciani Turroni’s specific choice of numerical examples and lag values.

4. Italian economists’ anti-Keynesian stance and arguments

The reason we have dedicated so much space to Einaudi’s and Bresciani Turroni’s articles is their great influence on the attitudes of Italian economists over the following years. To cite just one example, the volume of Studi Keynesiani containing the reprint of Bresciani’s article also includes a short paper by Rodolfo Benini. The paper is explicitly based on Bresciani Turroni’s “wise considerations” and on a line of argument “which represents an almost literal transcription of a passage from my friend Bresciani”. According to Benini, multiplier theory should be rejected definitively on the simple

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21. Bresciani Turroni was, of course, perfectly aware that the importance of the multiplier for economic theory depended on the fact that it had been accepted, “in its essential lines, by Keynes” [Bresciani Turroni (1939), p. 91].

22. Econometrica published contributions from Haberler, Goodwin and Hagen, as well as a reply from Haavelmo himself.

23. The same considerations apply as in the previous case. It is true that in 1939 the definitive works clarifying this issue—by Oscar Lange (1945) and Richard Goodwin (1947)—had yet to be published. But it is also true that Bresciani Turroni reprinted his work, without revision, as late as 1953.
grounds that if the propensity to consume is equal to one, the value of the multiplier will be infinite. A modern student who attempted to explain the multiplier model using Benini’s arguments (see, for example, the passage cited in the footnote) would probably fail his or her first year economics exam. But Benini was a senior scholar, a statistician who had done his best work in the period between the two wars. He was a typical representative of a generation that—reasons we have tried to explain—had placed itself in a position where he was unable to understand the novelty of Keynes’ ideas.

As Paul Samuelson ([1947], p. 146) wrote, many years ago, “the General Theory caught most economists under the age of 35 with the unexpected virulence of a disease first attacking and decimating an isolated tribe of south sea islanders. Economists beyond fifty turned out to be quite immune to the ailment. With time, most economists in between began to run the fever, often without knowing or admitting their condition”. Benini was well beyond fifty and for that reason alone was probably immune to the Keynesian infection. What was unusual in the Italian situation was that many young economists were immune as well. Of course, they did not commit the same errors of understanding we find in Einaudi, Bresciani Turroni or Benini. But they shared the same underlying attitude: they tried to minimize the implications of Keynes’ ideas, to circumscribe their validity (to specific historical periods) and above all, to emphasize the weaknesses in Keynes’ approach. In this way they neglected the new analytical prospects that Keynes had opened for scholars.

In other countries young economists were thinking along the lines of Richard Goodwin. As he put it, in 1947, “Lord Keynes did not discover the multiplier; that honour belongs to Mr. R. F. Kahn. But he gave it the role it plays today, by transforming it from an instrument for the analysis of road building into one for the analysis of income building. From his own and subsequent work we now have a theory, or at least its sound beginnings, of income generation and propagation, which has magnificent sweep and simplicity. It set a fresh wind blowing through the structure of economic thought” (Goodwin [1947], p. 482). Outside Italy economists were concentrating on the prospects opened by the new ideas. Young scholars such as Klein, Hicks, Modigliani, Meade (who went on to win Nobel Prizes), along with Goodwin himself, used Keynes ideas to open new horizons—without worrying about possible weaknesses in the theory’s foundations. Testing the foundations could wait.

But as we have said, things in Italy went differently. As examples, take Giuseppe Di Nardi and Giovanni Demaria, two economists with a critical view of the Keynesian approach. Papi’s collection of Studi Keynesiani, cited earlier, contains a study by Di Nardi (1953) on the consumption function and a paper by Demaria (1953) on Keynes’ theory of the business cycle. Although the two articles dealt with different issues the authors’ underlying attitude was very similar. Both emphasized problems in the theories they were considering and both saw these problems—not as side issues to be cleared up by future research—but as weaknesses capable of compromising the whole validity of Keynes’ approach. This kind of attitude was very common among Italian economists of the period.

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44 “This is amusing. According to Bresciani Turroni, Kahn was aware of this extreme case but saw it as a theoretical curiosity. Not Mathematics does not produce ‘curiosities’. The absurdity of the consequences is a direct result of the absurdity of the premises. Once we accept these, all we need to do is to organize a propaganda campaign among new wage earners, convincing them to spend every last cent of their earnings. In this way the value of the multiplier would increase to infinity and the crisis would disappear as if by magic” (Benini [1953], p. 122). It is a pity that the propensity to consume that matters is not the propensity to consume of new wage earners (as Benini mistakenly believes) but that of consumers in general.
We should note that the individual criticisms these authors raised were not always irrelevant or mistaken. Demaria, for example, criticized Hicks' famous business cycle model (Hicks 1934) as excessively mechanical. Discussing Hicks' investment function he observes that "the decision to invest is rigidly and mechanically dependent on increases in production in various periods of the past and takes no account of predictions of future market trends" [Demaria (1955), p. 215]. In a 1949 paper another Italian economist, Luigi Federici, observed that Keynes' formulation of the consumption function is too rigid: in reality consumer expenditure depends not just on their current income but on their predicted future income and the value of their liquid assets [see Federici (1949)].

The Italian economists of this period were firmly anchored to the general principles of Neoclassical theory. Starting from this viewpoint they focused their criticisms on failings in what today we would call the "microfoundations" of Keynes' theory. In Italy these failings were considered sufficient ground to downplay the implications of Keynes' approach. Economists outside Italy took a very different view. On the one hand they took note of the wealth of novel results that Keynes' analysis made possible and suspended their doubts; on the other they worked to shore up weak points in the theory and to create solid microfoundations for Keynes' three key behavioural functions: the consumption function, the investment function and the demand function for money.

5. The Italian Keynesians

Of course not all Italian economists of the late 1940s and the 1950s were anti-Keynesian25. We have already mentioned Ferdinando Di Netti and Vittorio Maturana: the most important members of the Italian Keynesian school. The role of these scholars in spreading Keynes' ideas is so well known [see Becattini (1984), p. 26] that we will limit ourselves to a few brief remarks. The first point, which concerns Di Netti, is that he did not just write books and articles [see, in particular, Di Netti (1948a, 1948b)]. As editor of L'Industria, from 1945 to 1952, he also published a broad range

25. Though often they were. Alongside a few examples of acute and meaningful analysis, contemporary Italian articles on Keynesian economics included an amusing collection of misunderstandings and mistakes.

26. Many of the Italian scholars who adopted a critical attitude to Keynes in the early 1950s stuck to their position even in later years, as we can see in Demaria, Di Netti and Papi's contributions to Becattini et al. (1954). From the 1970s onwards, these authors were comforted in their convictions by mounting foreign criticisms of Keynesian theories: the so-called monetarist counter-revolution. As Di Netti [(1974), p. 46] wrote, in his paper, "the hue and cry over the so-called inadequacy of economics, following the crisis of the 1970s, failed to surprise economists of my generation."

27. As an example we could quote Hicks. After describing and criticizing a number of incongruities in the various "short run" concepts that Keynes applies in his analysis, Hicks writes: "A reservation on this point has always, I think, been the back of the mind of critical readers; but we have agreed to suspend our doubts because of the power of the analyses which Keynes constructed on this (perhaps) shaky foundation" [Hicks (1965), p. 65].

28. Franco Modigliani developed his work on the consumption function in the early 1950s (cf. Modigliani: Brenner (1954)), writing in the same period as many of the Italian economists we have examined in this paper. Baumol and Tobin's pioneering work on the demand for money [Baumol (1952), Tobin (1957)] was published in the same period. The only issue to remain untreated until the 1960s, was that of the microfoundations of the investment function.

29. But as we have shown, and as Bresciani Turrini [(1956), p. 280, fn.] confirms (much to his satisfaction), the majority were so.
of pro- and anti-Keynesian articles, making the journal an important vehicle for the penetration of Keynesian theory in Italy20.

Our second observation concerns more or less all the Italian Keynesians of this period. In general they had studied abroad or maintained a very open attitude to economic research outside Italy. Di Fenizio (1948b), for example, hurried to review Seymour Harris' collection of Keynesian studies; his 1949 textbook strongly praised the work that was being produced outside Italy19. Marrama, for his part, had studied at the London School of Economics, during the early 1940s and had published in the Review of Economic Studies. Towards the end of the decade, he also worked for the International Monetary Fund.

Ugo Sacchetti, the author of some of the clearest and most up to date Italian studies of Keynesian theory of the period, had a similar background. Though he started his career some years later, his training was similar to Marrama's: he too studied at the London School of Economics, at the end of the 1940s20 and he too worked with the International Monetary Fund. Later their careers took different paths. Marrama became professor of economics at Rome University. Sacchetti, on the other hand, spent the rest of his life abroad, though he continued to publish occasional (very high quality) studies in Italian journals20. He strongly negatively reviewed Bresciani's and Benini's works in his articles on the multiplier appeared in the same 1953 collection of Studi Keynesiani, previously quoted21. We do not know how far his major life decision to live abroad was a consequence of such an article.

Our final point concerns the way the Italian debate of the 1940s and 1950s ignored the IS-LM model. Outside Italy the IS-LM model had become the main formal tool for analysing Keynesian theories and policies. In Italy, on the other hand, the majority of economists continued to identify Keynesian macroeconomics with the multiplier and


21. In his discussion of economics and of the economic system as a whole, Di Fenizio (1948), p. 7, observed that foreign scholars used 'difficult and novel expressions like, for example, the propensity to consume and the propensity to save. They talk about investment causing inflationary or deflationary gaps. This kind of terminology or concept is not yet common usage in Italian university lectures: even though they are fully accepted and widely taught in foreign universities'. Outside Italy this kind of research 'is in the top priority. Here, on the other hand, we meet a barely dissimulated reluctance to replace the old with the new'. We might add that even Di Fenizio showed some of this reluctance: his treatment of Keynesian analysis was in fact rather old-fashioned compared to the international standards of the period.

22. At the London School he was lucky enough to have William Baumol as his superior. Baumol's role is gratefully acknowledged in Sacchetti's introductory note to his paper on the multiplier, published by L'Industria [Sacchetti (1952)].

23. His last paper was published on the 81. Quarterly Review [Sacchetti (1999)].

24. Sacchetti (1951), p. 127, wrote: "The history of multiplier analysis, though not long, is distinctly complicated. In the last twenty years there have been many changes. Certain concepts have been rejected or abandoned, others changed or refined. And new concepts have been introduced. As a result we have an abundant stock of waste material. Using less metaphysical language, we can say that some of this material consists of mistakes. Certain economists have correctly identified these mistakes and put them to one side. For these economists and for the readers of their works, the considerations that follow will be of very little consequence. They are justified, however, by the fact that certain commentators on economic affairs seem to have serious difficulty in separating the waste from the final product, and above all because their readers might be led to commit the same mistakes."
Keynesian policies with deficit-financed public work. As far as we are aware, the first "Keynesian model" in which equilibrium was determined by simultaneous interaction between the market for goods and the market for money appeared in a paper by Felice Villani, once again in Studi Keynesiani. For a clearer, more modern presentation Italian economists had to wait until 1956 when Claudio Napoleonii published his Dizionario di economia politica. Here we find a model with two unknowns -- the national product and the rate of interest -- determined by two equations, the first describing equilibrium on the market for goods (I = S) and the second representing equilibrium on the money market (L = M). Even here, however, the discussion of the model is hidden away in a few pages under the headings of " Liquidity" and "Saving". The acronym IS-LM is not even mentioned. Only in the second half of the 1960s did the model become standard fare in Italian University economics courses.

The Dizionario di economia politica gives us a fairly good picture of the state of Italian Keynesian studies half way through the 1950s. Some of the entries -- especially Napoleonii's own, such as the work on " Liquidity" and "Savings" mentioned earlier, or the entry on the "Multiplier", are almost at the same level of work being done abroad. The same applies to the entry for "Consumption", written by Silvio Bacchi Andreoli. These however were exceptions. In other entries where we might have expected to find Keynesian ideas -- such as those for "Interest" (written by Giulio Pietranera), "Investment" (Paolo Sylos Labini), "Employment" (Ugo Marchese), "Economic Policy" (Silvio Bacchi Andreoli), and "National Income" (Salvatore Guidotti) -- Keynesian ideas are relatively rare or even completely absent.

Sergio Stève's contribution to the Dizionario, on "Public Finance", deserves a discussion of its own -- as we will see in a little while. First, however, we have to take a step backwards and make a closer examination of the history of attitudes to Keynes' ideas among Italian scholars of this subject.

6. Keynesian economic policy and Italian scholars of public finance

In the period following the Second World War only a minority of Italian economists could be counted as scholars of public finance -- in the sense that this was their profession.

35. According to Sacchetti (1960), p. 128, this way of conceiving Keynes' ideas is often associated with negative criticism [...] whose ultimate goal is the denunciation [...] of Keynes' theory. Sacchetti's essay easily showed that this view of Keynes was "unfounded" and that Italian economists' idea of demolishing Keynesian ideas in this way "belongs to the reign of illusion" (ibid.).


37. Cf. Napoleonii (1956d), pp. 79-89, 134-1. Napoleonii himself wrote both entries. The reference is to the famous article in which Hicks (1937) first proposed the IS-LM model.

38. Once again Napoleonii gave a pioneering example as he taught the IS-LM model in his classes at the Soreze, at the beginning of the decade and, at Arenga University, a few years later. We also recall the outstanding and influential chapters on Keynesian economics enclosed in his volume Il pensiero economico del XIX secolo (Naples 1999). By the mid-sixties both Augusto Graziani (in Naples), and Giancarlo Gandolfi (at Rome University as Mantana's assistant and then at Siena University) taught the IS-LM model. Their lectures were published and widespread all over Italian universities (Graziani 1967) and Gandolfi (1957). Gandolfi's paper, originally written in 1966, circulated for long time as a typewritten university handout.

39. It is interesting to observe that Napoleonii follows quite strictly Sacchetti's approach (Sacchetti 1946) in present multiplier arguments.

40. Among these scholars the two with the strongest feeling for Keynes' approaches were Pietranera ([1956], pp. 245-50) and above all Sylos Labini (1966), pp. 246-47. It is surprising that the entry for "Economic Policy" never once refers to the name of Keynes, and never mentions Keynesian policies; macroeconomics is discussed in a single paragraph and in rather vague terms. This is especially unexpected if we consider what we already know about Bacchi Andreoli; a scholar who was highly attentive to Keynesian themes, not only in his earlier work, but even in another entry he wrote for the Dizionario.
sional speciality and the subject they taught at university. When the Rivista di politica economica organized a conference on unemployment in 1948, only 15 out of the 30 scholars attending taught the subject. Out of 65 authors quoted in Papi's bibliography of writings on Keynesian topics (Papi (1954))\(^4\), only 31 could be said to be experts in this area.

In this period the majority of work in public finance was dedicated to traditional topics – with special emphasis on the reform of the tax system. It should be added that many professors of public finance and financial law had a background in law rather than economics. While they were certainly capable of reading work by economic scholars, their technical background placed them at a handicap in reading Keynes or indeed any of the macroeconomic literature. Browsing through the Rivista di diritto finanziario e scienza delle finanze, the main journal in the field, we find a long study by Giannino Paravicini (1951a). But the next paper on a Keynesian theme – Gerelli’s paper on stabilization (Gerelli (1967)) – came a full 16 years later. It was a period when even authors like Cesare Coscianni and Sergio Steve, who played a key role in spreading Keynesian ideas during the 1950s, dedicated much of their energy to traditional themes.

And yet, the Keynesian approach had implications for economic policy – and for fiscal policy – which scholars of public finance found it hard to ignore. Steve, for example, opened an important study written at the beginning of the decade [Steve (1951), p. 3] with a traditional citation from Pigou ([1947], p. 35). "To cover current expenditure with loans [...] would imply a continuous expansion in public debt and a continuous growth in interest payments". Inevitably, however, he also had to take account of studies by Keynesian scholars such as Hansen (1941) and Domar (1944). The latter suggested a complete reversal of traditional fiscal policies.

In any case public economists’ job is to focus on the role of the state in a market economy. And thus, even those who professed liberal ideas in economics (the majority in this period), found nothing strange in the need for state intervention. Certainly the kind of intervention they were using to thinking about was microeconomic in nature – as in the case of interventions concerning public goods. But it was easier for these scholars to shift to an interventionist macroeconomic stance than it was for the economic theorists whose work we described earlier.

In the early 1950s the main themes for macroeconomic debate were the use of budget deficits as a tool to obtain full employment and the effects of public expenditure financed out of tax revenues (our previous theme of “the balanced budget multiplier”, on which see more later).

7. The traditional position

Apart from Einaudi (whom we have already mentioned), the first scholar of public finance to investigate Keynesian topics was Celestino Arena, whose culture was fully formed before he started this work, and who was, in fact, older than other scholars who were later to discuss macroeconomic issues. Arena’s contributions began with a paper in the Rivista di Napoli [Arena (1946)], and came to a close with a report

\(^4\) Curiously the bibliography fails to make any reference to the series of articles on Haavelmo’s theorem (by Villani, Federici, Paravicini, Selan and Gola), which appeared in the Rivista Bancaria in 1950-51. Paravicini is not cited at all. The other authors appear in the bibliography but for other works.
to a conference organized by the Institute of Economics and Finance in Rome University [Arena (1953)]
I, where he was the only scholar of public finance present.
Between these two dates Arena's attitudes changed significantly. In 1946 he had written a highly critical review of Beveridge (1944) in which he attacked Keynesian policies as a threat to the market economy. These policies, he argued, led in the direction of a planned economy, in complete or partial negation of liberal principles. In the 1951 conference report, however, the tone changed. This becomes clear when we read his summing up in paragraph 5 and paragraph 10: "Keynesian economic policy is not radical; not only is it compatible with a market economy; it is designed to control, regulate and direct the market economy so as to conserve its positive, irreplaceable, individualistic elements. It is progressively reformist and moderately conservative." Its goal is to reconcile freedom of choice for consumers and producers with the constraints of a complementary, corrective, anti-cyclical economic policy." Arena admits that "deficit spending" is "the most effective form of stabilizing, anti-cyclical fiscal policy", always provided that it is used in moderation, to avoid inflationary dangers. If such a policy "is put into effect without the moderation that Keynes himself suggests, it can compromise the economic growth the theoretical system was created to serve" [Arena (1953), p. 254].

Despite this timid opening to Keynesian ideas Arena cannot, by any means, be considered a Keynesian. His understanding of fundamental Keynesian ideas left a lot to be desired, as can be seen from his criticisms of Haavelmo's multiplier theorem (which we will examine shortly).

8. Keynesian authors

In 1951, as we mentioned earlier, the Rivista di diritto finanziario e scienze delle finanze published a long three part study by Giannino Parravicini, re-examining the issue of public debt in the light of Keynes' and Keynesian ideas. On p. 168 Parravicini lists the main works he has read while developing his ideas, namely Hansen (1941), Burchardt (1944) and Beveridge (1944). Elsewhere we find references to Di Fenizio (1949), Marrama (1948) and Bacchi Andreoli (1949). In the first part of the study Parravicini discusses the debate on public debt, making occasional references to the Keynesian approach to the issue. He then goes on to examine 1930s Germany, which he sees as an example of an unconsciously Keynesian approach. The second part of the study starts off with an outline of the basic Keynesian model and of multiplier theory. Parravicini then proceeds to examine three possible strategies for maintaining full employment. Two of these — increased expenditure, and reduced taxation — produce a budget deficit. The third strategy, on the other hand, is based on simultaneous increases in expenditure and taxation with a multiplier of 1. All three options are investigated using graphs and numerical examples. Finally in the third part of the study Parravicini examines other as-

43. The bibliography in Stadi keynesiani [Parr (1951)] cites eight papers by Arena, dating from 1946 to 1951. If we include the conference report we have nine distinct contributions.
44. Two quotations are enough to illustrate the point: "Beveridge analyses [...] new theories of unemployment, all of which can be reduced to Keynes' own theory and its subversive opposition to Pigou's orthodox view" [Arena (1948), p. 614]; "these theories support not only corrective measures but also prophylactic stabilizing policies, which they claim are fully compatible with the laws of economics [...] if only they had not got bogged down in dazzling but nebulous technical terms such as 'compensatory spending' and 'deficit spending' and other similar inventions: they would have done better to build on the solid view of long-term tendencies as seen by the classical economists" (ibid., p. 616).

44. Here Arena is paraphrasing well-known statements by Keynes himself.
pects of Keynesian analysis: theories explaining stagnation in mature economies, the theory of the business cycle and monetary issues in the management of public debt. Taken as a whole the study is entirely Keynesian in its inspiration.

Again in 1951, another Italian scholar stood up in defence of Keynes’ ideas. This was Valerio Selan, who in that year published a paper, significantly entitled, “The theory of the multiplier” [SELAN (1951a)]. The paper builds on Lange (1943), which appears among the first works in Selan’s references. It is a detailed paper with a rich bibliography. The author considers the positions of Keynes’ critics, maintaining a balanced position at all times. The conclusions of the study are similarly well-balanced: “The theory of the multiplier, with all its later formal refinements, continues to be an extremely delicate tool of analysis whose applicability tightly depends on specific hypotheses; yet it can be extremely useful, particular with regard to monetary issues and in the analysis of economic dynamics” (ibid., p. 742)45.

The paper’s opening remarks are significant, in particular in view of the author’s proffered explanation for the paper’s origins. “Few economic theories have created as much controversy among scholars as the so-called theory of the multiplier. Indeed the controversy continues and will only be exacerbated when, in the near future, Prof. Pasquale Saraceno publishes his original study on the economic effects of an investment program for the Italian Mezzogiorno” (ibid., p. 720). The study [SIMEZ (1951)] was in fact published in the same year but did not circulate widely and was not well known in academic circles. It took the form of a wide-ranging, applied analysis, written as a technical report for a loan request to the International Bank for Reconstruction and Development. The analysis was careful, estimating effects on revenue, consumption and employment by economic sector and geographical area. It is interesting to note that the word ‘multiplier’ never appears in the text. The body of the report and its two appendices nonetheless make it clear that Saraceno is using sectorial multipliers46.

9. Textbooks

The first university textbook to present the Keynesian – or macro-economic approach – at this time the two terms had the same meaning – was Cosciàn’s Princípi (COSCIAN (1953)). In his preface the author writes that the book will “take a broader than usual view of the relationships between national income and fiscal activity. This high level view – in which the object of the analysis is treated in terms of social aggregates – facilitates the reader’s understanding of the process, making it possible to provide a scientific representation of reality with fewer distractions. By adopting this kind of approach the author’s task becomes easier and the reader is more willingly convinced of the practical utility of our discipline. This is the reason for the way we have treated the topics examined in the second section of the volume – an approach not to be found in other textbooks” (pp. viii-xi). The text is, indeed, divided into three sections. In the first of these – dealing with the economic role of the state – Cosciàn describes his approach to Public Finance as the study of public coercive choices. The second section – on national income and taxes – contains six chapters covering topics from national accounting –

45. In the following year Selan (1951a and b) wrote two articles on macroeconomic topics. His contribution to the 1952 debate on Haavelmo’s theorem – to be discussed shortly – was, on the other hand relatively marginal.

46. Appendix 1, by Veniero Ajmone Marsan, is entitled “Procedure used to calculate the economic effects of expenditure with an infinite time horizon”. Appendix 12, by Franco Pilotton is entitled “Procedure used to calculate trends in income”. Appendix 11 refers directly to the “multiplier”.
with special attention to the national budget – to Keynes’ model, from the multiplier to budgetary policy. This section of the book also includes chapters on incentive policies, redistribution and extraordinary wealth taxation. The third and longest section of the book – on taxes and market prices – is an in-depth analysis of the effects of taxes in different kinds of perfect and imperfect competition.

In his presentation of Keynes’ approach, Cosciani talks of “a turning point in the history of economics” (ibid., p. 165). The Principi contains only a limited number of references. Three are to well-known works in English: [HARRIS (ed.) (1947), DILLARD (1950) and [KLEIN (1948)]; the only Italian work cited by the author is MARRAMA (1948). Cosciani ([1953], p. 166, fig. 6) begins his presentation of Keynes’ model with a graph taken from Dillard. The graph shows the curves for aggregate demand (dd) and supply (zz), where the x-axis measures employment and the y-axis shows aggregate revenues and expenditure (or national income). The point where the two curves cross represents effective demand. Given that Keynes rejects Say’s Law, this point does not necessarily correspond to full employment.

The next graph (ibid., p. 168, fig. 7), presents what is now the conventional diagram of the consumption function, with national income on the x-axis and consumption on the y-axis. Cosciani finishes off the graph with the usual 45° straight line, which he uses to determine the point of equilibrium. Unlike Dillard, Cosciani wastes little time on the transition from the first to the second graph – which will play an important role in the subsequent analysis. The third edition of the textbook [COSCIA] (1961) still contains the graph of the dd and zz curves (ibid., p. 595, fig. 81). Now, however, the x-axis measures what Cosciani considers to be two closely related variables, namely employment and national income. Once again he draws a 45° straight line. Point E along this line is the point where the dd and zz curves meet. The following graph (fig. 84) is a traditional diagram of the consumption function.

It seems, however, that Cosciani was not satisfied with this solution. In the sixth edition of the textbook – which came out in 1970 [COSCIA] (1970) – he completely eliminated the graph with the demand and supply curves and begins his treatment with the traditional consumption function and the standard equations from Keynesian basic model. This is the graph he uses to analyse the effects of different budgetary policies. The only way Cosciani uses the dd and the zz curves is to explain Keynes’ critique of Say’s Law.

Chapter iii of the Principi presents the multiplier theory and the way in which budgetary policy can be used to achieve full employment. Cosciani cites a number of British and American authors (from KAHN (1931) to GOODWIN (1948)). The only Italian authors he refers to are Di Fenizio (1951) – for his estimate of the value of the multiplier – and Bresciani Turroni ([1942] and [1951]), whose discussion of the role of factors availability is one of the few correct points in his essays. Cosciani examines a number of different policy options for stimulating demand, including increases in public expenditure, incentives for investment and income redistribution.

As we mentioned earlier, the entry for public finance in Napolitani’s Dizionario [NAPOLEONI (1956d)] was written by Steve. In the section on fiscal policy Steve took up where his previous 1951 study had left off. On balanced budgets he was clear and concise: “In conditions where it was believed, rightly or wrongly, that the private sector was moving towards equilibrium [...] worry about balancing the budget arose from the need to avoid an inflationary breakdown in the balance due to an excess in public spending [...] with respect to revenues [...]. But if we recognize that the private sector can express too much or too little demand, compared to the level required for equilibrium, a balanced budget is no longer a precondition for equilibrium” (ibid., pp. 607-18).
Steve cites the balanced budget multiplier theorem, which he attributes to a number of authors, including Somers, Haavelmo, Kaldor and Samuelson. This was a concept that had not appeared in his 1951 paper. The rich bibliography on this topic includes Ravivici (1952b), whose contribution — as we will see shortly — was especially well balanced. The discussion of public debt includes not only classic authors and their analysis of the relationship between extraordinary taxation and debt but also a number of Keynesian authors, including Domar, who had an explicit reference in the 1951 study.

In the following year Steve published the first edition of his textbook [Steve (1957)]. Chapter v, “Public Finance and National Income” focuses explicitly on Keynes’ approach. Steve carefully analyses the main national accounting relations, including those depending on the government budget and on the balance of payments. He proceeds to clarify the ex post identity relationship between saving and investment – which always holds – as opposed to the ex ante relationship where the value of saving can be different from that of investment. He proceeds to show the mechanisms whereby the two values are brought back into equilibrium (ibid., pp. 120-8). If investment is higher than savings – and the economy has not achieved full employment – this will lead to a real increase in income; under full employment, on the other hand, the increase will be merely nominal. In short we will have inflation. The analysis is based on two graphs (ibid., p. 122, fig. 8, and p. 125, fig. 9) where, typically, the x-axis shows income and the y-axis shows aggregate expenditure. The graphs allow Steve to illustrate the multiplier – though he himself does not use the term. In the 1962 edition Steve introduces a graphical and algebraic presentation of the multiplier process, expanding the chapter in the previous edition. In the following chapter on “The Budget”, at the beginning of the third section (“Tools for public finance”), Steve expands on the topics he had already treated in his earlier works from 1951 and 1956.

Cosciani’s and Steve’s textbooks should be seen as the main vehicles introducing Keynesian economics into Italian university courses on public finance. A few years later other textbooks began to include sections on the Keynesian approach. These included Francesco Forte’s textbook (1961), which we will analyse shortly, as well as other books by Antonio Pesenti (1961) and Aldo ScoCante (1967). Lello Gangemi’s textbook (1964) might also be considered as belonging, at least partially, to this class. Ernesto D’Albergo, on the other hand, deserves a separate discussion. Years earlier D’Albergo had published an article [D’Albergo (1948)] in which he argued that the macro-economics approach adopted by authors in the classical school – and especially scholars of public finance – as he considered himself to be – had much in common with Keynes. Starting with the third edition of his textbook [D’Albergo (1992)], the author provides an introduction to Keynesian as well as alternative approaches. His main goal, it is not, however, to educate the reader in the Keynesian model and its economic policy implications. What really matters to D’Albergo is to show that his own previous work on the effects of taxation – written in the Marshall tradition –

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47 Here Steve cites “the very fine guidance provided by E. Schneider”. See Schneider (1999).

48 The Keynesian-inspired part of Gangemi’s book is in the section on National Accounting and the discussion in this section, of the various items in the government budget. In addition to authors from the old school such as Fanno (1945) and Del Vecchio (1950), Gangemi also cites more modern writers such as Cosciani (1959), Fila (1957), and Steve (1957). However, his main source is Di Penta (1949). The problem is that at the end of the section on National Accounting there is no real discussion of the economic effects of fiscal policy – just one very short and rather fuzzy reference to the issue. ScoCante’s book, on the other hand, takes the opposite approach. A very short description of national accounting concepts is followed by a slightly longer illustration of key issues in the Keynesian model.
took account of variations in income and can thus be considered as a forerunner of the Keynesian approach.

Year 1957 saw the publication of a collection of papers by Giorgio Fuà (1957). The book is divided into two sections, devoted, respectively to "the meaning of national product" and "current issues in national income and national welfare". In the introduction to his study of national accounting, Fuà clarifies his relationship with Keynes.

"Economic theory, with Keynes, shifts its attention from the volume of national income to the factors that determine it. Economic policy is given the task of regulating investment and consumption [...]. To intervene rationally it became necessary to measure key economic variables and their variations. Theory, policy and statistics provided each other with new ideas and new inspiration" (ibid., pp. 5-6).

Chapter 6 of the second part is entitled, "Income as the focal point for general treatments of economics" and is based on a paper Fuà had written to mark Keynes' death. In the paper he tells an amusing anecdote: "Just before the armistice an Italian publisher asked me to edit a collection of papers -- the goal being to bring our readers into contact with economic thinking in other countries. Roepke, who was one of the greatest living economists -- followed what I was doing from Geneva. When he discovered that I planned to put Keynes' General Theory at the top of my list he rapidly tried to dissuade me. That sort of upside down economics -- he said -- could only cause confusion in your readers." (p. 147). In chapter 7, entitled "Fiscal policy and national income" Fuà reviews anti-cyclical policies. His references include one American author [SOMERS (1949)] and two Italians [COSCIANI (1953) and STEVE (1957)]; as a critic he cites Papi [PAPI (1960)]. Fuà is somewhat cautious about policies of deficit financing -- which he fears could lead to "a vast expansion in public debt". Authors like Schumacher (1944) and Kaldor (1945), he argues, tend to neglect the danger. But in this way "the income available to each member of the collectivity would become more and more independent of his personal activity. Citizens would receive a larger income from their fixed interest state bonds while the proportion of national income absorbed by taxes would increase correspondingly. [...]. This would represent a threat of paralysis to incentives on the labour market which in turn would require a series of corrective measures [...] which could not be undertaken lightly" [FUÀ (1957), p. 172].

In 1956 Francesco Forte began a book on the theoretical foundations of economic policy, using early drafts as handouts to students during his lessons at the Istituto per gli Studi di Politica Internazionale in Milan. In 1961 the Piccola Biblioteca Einaudi published a revised edition, designed for a broader public and not just for university students [Forte (1961)]. The new text, which did indeed reach many readers outside academia, was divided into three sections, covering all the main issues involved in State intervention in the economy. The third section was on macroeconomics. In particular the first chapter dealt with issues in fiscal, monetary and income policy. Forte provided a rich bibliography for each chapter. In the book he introduced the concept of "externalities", extending the concept to cover Lerner's approach to the role of taxes in budgetary

Forti (1956) cites D'ALBERGO (1952) as one of his own "pre-Keynesian" studies written "when Keynesian terminology was not yet in fashion". We observe that in his previous 1948 work D'Albergo makes the same claim but, instead of referring to his 1952 article, quotes other works with no relevance to this issue.

For the modern reader this claim seems something of an exaggeration and indeed it was an exaggeration; at the time Roepke certainly had a good reputation; he was a German economist whom the Nazis had driven out, in 1931, because of his liberal views. As a result he went to teach in Switzerland. In 1942 he published an essay [ROEPKE (1922)] discussing a report by the United Nations in which he advanced a traditional free-market critique of the Keynesian approach.
management [Lerner (1944)]. According to this approach the role of taxes is not so much to finance expenditure as to avoid inflationary or deflationary tensions. Forte argues that "taxation without public expenditure can produce a net benefit for the community. [...] There exist situations where demand is greater than supply, leading to inflationary pressure; taxation, without public expenditure, makes it possible to avoid this pressure, and thus to achieve one of the state's important goals, namely to satisfy the 'collective need' for monetary stability" [Forte (1965), p. 420].

10. Haavelmo's theorem

Haavelmo's 1945 paper in Econometrica had a profound impact on the international debate on the Keynesian approach. The reason is easy to understand. Up to that time most economists — including many of those closest to Keynes ideas [see Samuelson (1975)] — took it for granted that balanced budgets were "neutral" and devoid of any economic effect. The idea that public expenditure (for goods and services), could affect one, even when financed by an equivalent volume of taxation, made economists immediately suspicious.

The opening shots in the Italian debate were fired by Villani in a paper on the Rivista Bancaria [Villani (1950)]. In the paper the author cites not only Haavelmo — as is obvious — but also Haberler (1946) and Bresciani Turrioni (1949). Villani raises a number of objections, among which the effects of time lags between taxes and expenditures, the possibility of variations in the marginal propensity to consume, and the need to distinguish between real and monetary variations. But the main focus of Villani's critique is that the proof of the theorem is based on premises that themselves depend on the truth of the theorem. It is a line of argument which recalls charges that the multiplier is a truism.

Somewhat later Federici (1950) joined the debate. Federici argued that certain minor criticisms were irrelevant for an initial discussion. But on the crucial issue, he believed, Haavelmo was guilty not so much of a logical fallacy as of a straightforward mistake. Haavelmo had identified two relations, in modern notation:

1. \( Y_2 = aY_1 + C^* + I = \frac{(C^* + I)}{(1 - a)} \)
2. \( Y_1 = a(Y_1 - G) + C^* + I + G = \frac{(C^* + I)}{(1 - a)} + G \)

where \( a \) is the marginal propensity to consume, \( C^* \) is autonomous consumption and the other symbols have their usual meaning. From these relations we see that the difference between the two GDPs is exactly equal to \( G \).

Federici corrects ii) with

iii. \( Y_1 = a(Y_0 - G) + C^* + I + G \)

Subtracting i) from iii) the difference is reduced to \( G(1 - a) \).

Federici's article was followed by another paper from Villani (1950b). Villani's response was centred on what turned out to be an irrelevant issue: the effect of spending and taxation on the marginal propensity to consume.

So it was left to Parravicini (1951b) to show that Federici's critique was mistaken². Working from Hagen (1946) and Haberler (1946), Parravicini argued that Federici's re-

² In the same year, as we have already seen, Parravicini published an essay on the Rivista di Diritto Finanziario e Scienza delle Finanze [Parravicini (1951a)], where, without citing Haavelmo, he described balanced budget policy with a unit multiplier.
lation was not an equilibrium relation in comparative statics, but, if anything at all, the first stage in a dynamic analysis. If this analysis were followed through it would lead precisely to Haavelmo’s result. Parravicini goes on to note that although this result is independent with respect to the propensity to consume, the latter will always have a value less than one. This is not what Haavelmo seemed to think. Where the propensity to consume was actually equal to one the multipliers “would have the same value, with infinite positive and negative variations”. In these circumstances “the theorem looses any claim to significance” (ibid., p. 64).

Parravicini’s article was followed by two papers by Selan (1951) and Guglielmo Gola (1951); both papers criticized the theorem from a national accounting perspective, arguing that summing national income and public expenditure (on goods and services) was an arbitrary choice; it followed that the value of 1, assigned to the multiplier, was a truism.

Other scholars with a strong pre-Keynesian background, also found it difficult to accept the theorem’s validity within the Keynesian approach. As an example, take Arena’s report to the Rome conference. “Many have disputed Haavelmo’s claim […] that in certain conditions, an increase in taxes, with a corresponding increase in expenditure, can lead to an equivalent increase in income, even when the taxes have no effect on distribution. In reality the expansionary effects of public expenditure […] vary according to the way they are financed” (Arena (1953), p. 342). Keynesian authors are fully agreed on this point. In the case considered by Haavelmo’s theorem, however, expenditure is financed through taxation. As a result there is no variation in the stock of money or of government bonds. Perhaps Arena should have emphasized that the multiplier for tax-financed expenditure is equal to one, only when the expenditure is for goods and services and there are no transfers (assuming, obviously that the marginal propensity to consume does not change). That he did not do so is yet more evidence that the majority of Italian scholars of the period did not have an adequate understanding of Keynes’ macroeconomics.

As we have seen, the main exceptions were Cosciani and Steve. The latter’s previously cited 1951 paper made no reference to the multiplier with a balanced budget. But, as already mentioned, he does discuss this situation in his entry for Napoleoni’s Dizionario. In the first edition of his Lezioni, Steve (1957), p. 152) refers to the “so-called balanced budget theorem”, adding Perloff to the list of authors he had already cited in the Dizionario (1956), in the footnotes he quotes Samuelson (1948) and Parravicini (1952). He provides a concise, verbal description of the theorem, taking the opportunity to point out that it does not apply to expenditure for transfer payments.

Cosciani’s Principi (1953) does not cite Haavelmo’s theorem. But in chapter iii, on “Taxation and the level of consumption and saving”, Cosciani examines fiscal policies designed to increase national income. Having analysed the case of deficit-financed increases in public spending he considers the case of public expenditure financed by an equivalent volume of taxation. His argument goes as follows: when taxation leads to an equivalent contraction in consumption there is no effect on income. But the most plausible hypothesis is that taxation will also lead to a reduction in saving. It follows that “if the spending is larger than the contraction in consumption” (ibid., p. 206), there will be a net multiplicative effect. He illustrates this argument with a graph.

The next edition of the textbook, whose title Cosciani changed from Principi to Fattorie (1962) explicitly introduces Haavelmo’s theorem, which we find in paragraph 4 (“Stabilization policies with a balanced budget”) and in chapter v (“The government budget, the stability of national income and its redistribution”). Both chapters provide a wide range of references. The author analyses the case when the
value of the multiplier is equal to one, using the standard approach adopted by British and American textbooks and adding the appropriate provisos. The analysis is illustrated with a simplified version of the graphs already used in the Principi.

After Cossici and Steve, textbook authors accepted the balanced budget multiplier theorem and their textbooks on public finance began to include a macroeconomics section. Macroeconomics textbooks also incorporated the theorem, which became an important component in Keynesian fiscal policies.

II. Empirical studies

The first empirical study of the short-term sensitivity of taxation to economic fluctuations was published by Antonio Pedone in 1969. The analysis—which enables Pedone to discuss the strength of automatic stabilization mechanisms—is based on the period from 1950 to 1966. For practical reasons the author does not distinguish between automatic and discretionary increases in taxation. The author calculates elasticities and multipliers for each kind of tax, basing the calculation on the marginal propensity to consume and the marginal propensity to import. The results of the analysis show an increase in sensitivity over the period covered by the analysis.

In the same year, Fuá (1969) published a study, analysing the demand effects of fiscal policy over the period 1955-1965. The author correctly points out that the overall budget deficit is a poor indicator in that “it ignores the fundamental fact that taxes and current transfers, unlike public expenditure on goods and services, do not transfer their full value to demand but only a fraction of this value [...] equivalent to the private propensity to consume” (ibid., p. 114). In a note he cites Haavelmo (1944): “not the first, but the most famous paper on this issue”. A few years later Franco Romani (1969) repeated the exercise for the period from 1957 to 1967, and criticized the methodology Fuá had applied in his previous analysis. Fuá had noted that the marginal propensity to consume and to import fluctuated from year to year, giving the impression of a change in the consumption and the import functions. To avoid this difficulty he had applied average propensities. Romani, on the other hand, used multipliers where the values of marginal propensities were determined using regression analysis. In any case there were few substantial differences in the results of the two studies. Both authors agreed that fiscal policy had played a limited role in the periods considered by their studies.

Year 1969 saw the creation of a Research Group on Issues in Public Finance, led by Cossici and hosted by the Consiglio Nazionale delle Ricerche. As well as a number of monographs, the group published a book series on Problemi di finanza pubblica. Each of the several volumes in the series brought together contributions on a range of different topics. The first included two review papers summarizing the main themes in the post-Keynesian debate [Scarrat (1966), Tramontana (1966)]; in the second Fabrizio Galimberti (1967a) investigated automatic stabilization mechanisms—from both a theoretical and an empirical perspective—using Fuá and Pedone’s work to illustrate the Italian case. The third volume included three different essays on macroeconomic issues [Campa (1967), Galimberti (1967b), Ranci (1979)].

In 1970, the Problemi series published a monograph by Giuseppe Campa (1970): an in-depth analysis of the effects of tax policy. Like Romani’s earlier study [Romani (1969)], the analysis had been originally performed on behalf of Ico in 1968 and eventually ap-

12. Galimberti (1967a) also cites Costantino (1951). This work, however, adopted what we might call a pre-Keynesian approach, based on the correlation between tax revenues and a highly simplified index of short-term economic performance.
peared as an appendix11 to Izzo et al. (1971), which we will discuss in a little while. Campa’s study represents the first attempt to estimate the discretionary and automatic effects of taxation measures. The methodology applied differs somewhat from the methodology applied by Hansen (1969) in his work for the OECD.14

12. Short term control of the economy

In 1968, on the request of the Ministry for the Budget, ISCO set up a program of research into issues in short term economic policy in Italy. The working group came into being in January of that year and presented its report in December. The report was written by Lucio Izzi, Antonio Pedone, Luigi Spaventa and Franco Volpi. Preliminary copies of the report were circulated in 1969. A limited number of copies were distributed in 1969. The final report – which contained only minor revisions – came out in 1971 [IZZO et al. (1971)].

The report examines the long-running international debate on macroeconomic stabilization policies and their relationship to goals for growth, in the light of Italian experience. Special attention is paid to the crisis of 1964, which the authors see as an example of the failure to adopt appropriate intervention policies. One of the report’s main conclusions is that discretionary policy measures are needed to complement the role of automatic stabilizers; the authors do not believe that stabilizers on their own are enough. A second key conclusion is that monetary and fiscal policies are not alternatives but should be used together. Last, the authors reject the idea that incomes policy is a necessary condition for effective short-term control.

The report contains no references except for those to the report of the British Committee on the Working of the Monetary System from 1959, the US Report of the Commission on Money and Credit from 1961, and the 1966 edition of the Banca d’Italia’s Annual Report. The text also refers to special studies commissioned by ISCO and included in the confidential proofs that the authors use as support for their arguments. But despite this lack of references the reader immediately recognizes some of the authors’ polemical targets: such as Friedman’s proposal for constant expansion in money supply [FRIEDMAN (1966)], and certain aspects of the theory of economic policy, as described in Heller (1964).

13. A few words to conclude

Let us attempt to draw the conclusions of this rapid exploration of the relationship between Italian economists and Keynesian approaches to stabilization policy. The first section of our study showed how hard it was for Keynesian ideas to win acceptance. We examined the initial reactions of Einaudi and Bresciani Turroni, at the end of the 1910s, together with later studies from the 1940s and the first half of the 1950s. We saw

11. Other appendices on potential income, productive capacity, the anti-cyclical effectiveness of national insurance payments and the monetary base were written respectively by Salvati, Palermo, Magocchi and Izzi.
14. These were among the first works to close the gap between the macroeconomic work being produced by Italian economists and those of their foreign colleagues. Nonetheless, the gap, though narrow, persisted into the 1960s.
15. A negative view of the monetary stabilization policies of the early 1960s had appeared in Fox and SYLOS LABINI (1963) – another important Keynesian-inspired study. For a more detailed account of these policies see NAPOLITANO (1965, 1968). Napoleoni’s discussion takes account of the contemporary British debate on incomes policy – a debate that had been opened by NICOLAS KALDOR (1960), a very significant Keynesian author.
that with a few significant exceptions (Marrama, Di Fenizio), the majority of the Italian economists of this period deeply distrusted Keynesian economic policy. This was the reason for Italy’s long delay in accepting Keynesian ideas. Full acceptance was only achieved, in fact, towards the end of the 1960, when foreign scholars were already detecting the first signs of a crisis in the Keynesian approach.

In this paper we have attempted to outline the reasons underlying this mistrust. The Italian economists of this period had cultural roots running back to the beginning of the century. They were radically neoclassical in theory and free-market advocates in policy. The twenty years between the two wars and the advent of Fascism opened a cultural gap between Italian economists and their colleagues abroad. The majority of Italian economists were “cocooned” in the old ideas—and had little contact with the new ideas being developed outside Italy. And at least for some, the defence of “pure” theory and a free-market economic policy represented an opportunity to quietly mark their distance from Fascist ideology and policy. Things began to change only with the emergence of a younger generation of economists who had studied abroad. But for a long while these younger economists were a minority in the academic world who only very gradually managed to carve out a territory of their own.

In the second section of our study we took a detailed look at issues in fiscal policy, investigating the attitudes of Italian scholars active in this field. The first conclusion is that for the whole period of the 1950s these issues played a marginal role in the overall production of Italian scholars of public finance. Relatively few economists showed any interest in the field and when they did they had only a limited interest in Keynesian ideas, even though the two most important textbooks of the period (by Cosciani and Steve) had both granted considerable space to Keynesian policies. In fact Cosciani and Steve’s books did not reflect mainstream thinking among the economists of their own period though they were important vehicles for the penetration of Keynesian ideas among the next generation.

The second result of this section of our study is that resistance to Keynesian ideas was weaker among scholars of public finance than among economic theoreticians. Even scholars like Arena, who did not consider themselves as Keynesians, were nonetheless willing to consider Keynesian policy measures, at least in specific, tightly defined circumstances (such as recession). This relative open-mindedness was probably due to these scholars’ greater familiarity with state intervention in the economy.

The third result, which applies both to scholars of public finance and to general economists, is that with a few important exceptions, Italian economists had a relatively poor understanding of the mechanisms underlying Keynesian economics and that in many cases they persisted in errors that foreign scholars had already cleared up. One extreme example, of broad significance, is their treatment of the multiplier; another more specific case (from public finance) is their attitude to Haavelmo’s theorem. But as a new generation emerged the number of economists accepting Keynesian ideas grew, and the depth of their understanding improved. The gap between Italian economists’ research and publications and those of their foreign colleagues remained till the end of the 1960s but it narrowed significantly.

Finally there is one last point we would like to make. During the whole period we have been considering, Italian scholars showed relatively little interest in stabilization policies. Even authors like Cosciani and Steve—who sympathized strongly with Keynes’ ideas—taught these ideas, but paid them little attention in their research. It was only in the 1960s that automatic stabilizers and stabilization policies became important topics. This was not just due to the prevailing atmosphere of academic hostility to Keynes during the 1940s and 1950s. In our opinion the lack of interest in stabilization
policies had more to do with developments in the Italian economy than with ideas and theory. After the end of the great inflation of the 1940s the Italian economy began a long period of growth in conditions of substantial economic stability. By the end of the 1950s this growth had led to the so-called "economic miracle". In these circumstances the main concern of economists, including public economists, was growth and, as far as concerned Italy, the specific issue of regional inequalities in growth. One example of this attitude, from the early 1950s, was the Vanoni Plan, which involved economists such as Caffè, Fua and Saraceno (all of whom were inspired by Keynesian ideas); another example, a few years later, was the debate between Vera Lutz and Luigi Spaventa on Italian economic development. Fua, Sylos Labini and Napoleonii's works in the 1960s, which we have already cited, provide further examples of the same general tendency. Although the debate on stabilization policies plays an important role in these works, the central issues are always Italian economic development and the distortions and obstacles affecting this development.

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96. See footnote 55.
The spread of Keynesian approach concerning the use of fiscal policies as a tool of stabilisation policy – through the aggregate demand management – was delayed in Italy with respect to what happened in Europe and in the USA. In those countries Keynesian ideas made themselves known from the forties, while in Italy we had to wait until the sixties – apart from some exceptions like Marrama and Napoli among the scholars of political economy, and Conciani and Steve among the scholars of public finance. The paper analyses the main reasons of this delay, both among scholars of political economy and those of public finance (but remember that at that time the academic specialisation was less marked than today).

Two elements seem to be prominent: the first one is the relative isolation in which, between the two world wars, the Italian economists slipped, also as a consequence of the prevailing of fascist regime. A second complementary reason is represented by the Neoclassic theoretical background, with consequent free market attitude in economic policy of Einaudi and Bresciani Turroni, the unquestioned leaders of the generation of economists who were active during the forties and fifties.

The paper stresses that a non secondary role was related to the difficult understanding of the novelty of the Keynesian approach, as it appears from the approximate and inaccurate way in which Keynesian ideas are presented in Italian papers of that period. The spread of Keynesian approach in Italy waited for a new generation of economists who studied after the war, when contacts with foreign theoretical streams are connected again and step by step strengthened.

**Keywords:** Keynesian economics, fiscal policies.

**GLI ECONOMISTI PUBBLICI ITALIANI E KEYNES**

**Sommario**

La diffusione delle idee keynesiane in materia di utilizzo delle politiche fiscali a fini di gestione della domanda aggregata e di stabilizzazione delle fluttuazioni economiche è avvenuta in Italia con notevole ritardo rispetto a quanto è avvenuto nel resto dell’Europa e negli Stati Uniti. Mentre in questi paesi le idee keynesiane si affermano fin dagli anni quaranta, in Italia dobbiamo attendere (salvo rare eccezioni, come ad es. Steve, Conciani, Marrama e Napoli) gli anni sessanta. Nel lavoro si analizzano le principali ragioni di questo ritardo, sia presso gli studiosi di economia politica sia presso quelli di finanza pubblica (anche se in quegli anni la specializ-
zazione era molto meno pronunciata di oggi). Vengono individuati due elementi principali. Il primo è costituito dal relativo isolamento in cui, nel ventennio tra le due guerre, erano progressivamente scivolati gli economisti italiani, anche a seguito dell’avvento del regime fascista. Il secondo, complementare, elemento è costituito dalla formazione neoclassica e dal conseguente liberismo in politica economica di Einaudi e Bresciani Turroni, che erano gli indiscussi capi scuola della generazione di economisti attivi negli anni quaranta e cinquanta. Nel lavoro si sottolinea come un ruolo non secondario sia stato svolto dalla difficoltà di comprensione della novità delle idee keynesiane, che nei lavori italiani dell’epoca vengono esposte spesso in modo sommario e impreciso. La penetrazione delle idee keynesiane in Italia deve attendere la nuova generazione di economisti, formatasi dopo la guerra quando i contatti con le correnti di pensiero attive all’estero vengono riallacciate e, via via, consolidate.

Parole chiave: Economia keynesiana; politiche fiscali.

JEL classification: E12, E62