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THE ROLE OF GENOESE ECONOMISTS IN THE INTRODUCTION OF KEYNESIAN THOUGHT IN ITALY

ABSTRACT

The acclimatization process of Keynesian thought in Italy was long and complex. Several Genoese economists participated in it. In this work, taking as a reference two professors from the University of Genoa, Vittorio Sirotti and Luciano Stella, it is shown how this participation was divided into two phases. In a first phase, exemplified by the studies of Vittorio Sirotti, the attempt to reconcile the Keynesian theory with that of the Lausanne school was prevalent. In a second phase, when the acceptance of Keynesian theory in Italy was by now consolidated, the concern prevailed, evident in the studies of Luciano Stella, to extend this theory from a closed economy to an open economy.

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RIASSUNTO

Il processo di acclimatamento del pensiero keynesiano in Italia fu lungo e complesso. Ad esso parteciparono diversi economisti genovesi. In questo lavoro, prendendo a riferimento due professori dell'Università di Genova, Vittorio Sirotti e Luciano Stella, si mostra come questa partecipazione si articolò in due fasi. In una prima fase, esemplificata dagli studi di Vittorio Sirotti, fu prevalente il tentativo di conciliare la teoria keynesiana con quella della scuola di Losanna. In una seconda fase, quando l'accettazione della teoria keynesiana in Italia era ormai consolidata, prevalse la preoccupazione, evidente negli studi di Luciano Stella, di estendere questa teoria da un'economia chiusa ad un'economia aperta.

The acclimatization process of Keynesian thought in Italy was long and complex. Several Genoese economists participated in it, among them Sirotti and Stella. This is clearly evident in the book edited by Bruno Soro¹.

The book narrates the unbroken chain that unites the passion for research and academic teaching, a chain stretching through the generations. It threads, with a continuity that goes beyond the specific aspects of the different generations, teachers and students on its path stimulated by the spark of knowledge and the desire to study and deepen our understanding of the complex phenomena that are inextricably linked to the development of economic thought in certain historical and cultural periods.

The volume is divided into two parts: the first dedicated to the “master”, Vittorio Sirotti; the second to his “disciple”, Luciano Stella. In the first part, the tribute to Vittorio Sirotti begins with the contribution of Pier Maria Ferrando on Sirotti’s role as Dean of the Faculty of Economics and Commerce at the University of Genoa; followed by “portraits” of him by Amedeo Amato, Isabel Consigliere and Bruno Soro; followed by Guglielmo Chiodi’s analysis of his refined pedagogical skills in teaching macroeconomic theory and interpreting Keynes’s works, and concluding the section is a note by Bruno Soro on Sirotti’s short but pithy book regarding technological progress.

In the second part, Luciano Stella is remembered with a biography by Bruno Soro; this section also contains the note dedicated to Stella by Vittorio Sirotti as well as two of Stella’s essays, respectively regarding his reflections on unemployment and economic growth and on the persistent validity of the welfare state; it also includes the preface by Anthony Philip Thirlwall to Stella’s book, *Theories of balance of payments adjustment* published in 1990 by Marsilio Editori; and a postscript by Giorgio Rampa which refers to various episodes in which the discussions turned to real world economics. The volume includes a rich photographic appendix.

As Rampa describes in the postscript that concludes the reminiscences and analysis of the volume, what remains impressed in the memory of those who knew the two men and unites them, is their passion for study, demonstrated by

¹ Soro (2020).

“the illumination of their gaze, their emotional engagement and sometimes even parts of the conversation when they discussed what, from time to time, was happening in the real world”².

Reading the volume edited by Bruno Soro, one finds in the memories and reminiscences of the students and colleagues of Vittorio Sirotti and Luciano Stella the same reference to the serious and profound intellectual application to concerns about the problems of the world, with the awareness that the economist, although equipped with theoretical and analytical tools and models and data/information to interpret the historical and institutional evolution of the world, is faced with a complex subject, which constantly changes its reference parameters and which is subject to intuitions and prejudices which derive from essential elements of subjectivity.

Sirotti and Stella belong to a different generation, and hence from a period which despite being recent, has nevertheless has seen a succession of different paradigms of judgment on research and teaching.

As Amato *et al.* writing in the volume, underline, Professor Sirotti undertook a wide range of scientific activity, from economic theory, to applied economics, to economic policy. He published monographs and articles on issues regarding national accounting, partial equilibrium, general equilibrium, stability of equilibrium, economic dynamics, structure of world trade, pure theory of international trade, theory of economic development and theory of technological progress.

Again referring to the contribution of Amato *et al.* the depth of his analysis clearly emerges in the three essays on Microeconomics published between 1957 and 1959 in *Economia Internazionale*.

It was in this magazine in 1960 that Sirotti published a review of, then, recent developments in the theory of growth.

In addition to his publications, Sirotti contributed to the growth of the publication *Economia Internazionale* first as a member of its Editorial board, then of its Executive Council and finally of its Scientific Committee.

As is well known that, in the 1950s and 1960s *Economia Internazionale* played a crucial role in the economic and political debate of our country regarding the choices to be made in the field of

² See p. 113 of the volume. Translation by the Author.

trade policy. The magazine, founded in 1947 by the most important Italian liberal economists of the time, including Einaudi and Bresciani-Turroni, through contributions at an international level strenuously defended free trade. In this way it contributed to the policy choices of the governments of the time and to Italy's participation in the start of the process of economic integration of Europe with the Rome agreements of 1957.

Particularly interesting regarding the importance of Sirotti's economic thought is the contribution, included in the volume, by Guglielmo Chiodi which illustrates Sirotti's thought in the context of the theoretical debate that led to the spread and eventual predominance of Keynesian theory worldwide and especially within the Italian academy. Chiodi refers to important moments in the diffusion of Keynes's thought in Italy to create a profound dialogue with the interpretations coming from both sides of the Atlantic.

It should be remembered that the introduction of Keynesianism into the Italian theoretical panorama had encountered significant obstacles in the fine tradition and the robustness of national economic thought.

To use a happy expression of Caffè (1949), later taken up by Becattini (1983), in Italy, the "acclimatization" of Keynes's thought was a long and laborious process³. The difficulties of this acclimatization are mainly due to the fact that Italian economists between the two wars and in the immediate post-war period based their analysis on the general equilibrium theory of Pareto and Walras. They believed that the equilibrium between savings and investment was guaranteed by changes in the interest rate, just as in other markets, price changes would ensure the equilibrium between supply and demand. Taking this perspective, they rejected the principle of effective demand and the assumption that saving depends on income and not on the level of the interest rate⁴.

It is not surprising, therefore, that Einaudi repeatedly criticized Keynes's position⁵. In 1939, reviewing Keynes's *General Theory* together with Marget's book, *The Theory of Prices* – an articulated exposition of the quantitative theory – he wrote:

³ As Di Nardi and Demaria also recalled in the 1983 Conference on *Keynes in Italy* (Proceedings of the Conference *Keynes in Italy*, University of Florence, 4-5 June 1983, *Annali dell'Economia Italiana*, Istituto IPSOA, 1984).

⁴ See Vicarelli (1981).

⁵ See Lunghini (2004).

“Now Marget comes and throws 600 pages against Keynes; nor has the catapult exhausted its impetus, as the Author is elaborating and will soon publish a second volume, of equal size, in which the peculiar Keynesian doctrines on saving and investment in relation to prices, to the multiplier, to the liquidity preferences and the so-called forecasting method will be critically studied. ... Marget’s book is a wonderful protest against the rampant mania for imaginary revolutionary scientific innovations; it is a much desired lesson of modesty for all”⁶.

Bresciani-Turroni, criticising the income multiplier theory, argued as follows:

“... the danger of the multiplier theory consists in creating the illusion that any state expenditure, for both investment and consumption purposes, financed through the creation of new capacity purchase, immediately creates its counterpart in an equivalent saving. In this way it is believed to have shown that it is not necessary for the formation of new real capital to have its source and limits in previous savings”⁷.

Similar, if not more pronounced, were the perplexity of Papi on the most important concepts underlying *The General Theory* (multiplier, propensity to consume, preference for liquidity, theory of interest, etc.)⁸.

Despite this resistance, Keynes’s thought gradually spread among the new generations of Italian economists. Fundamental to this diffusion were the contributions of economists such as Di Fenizio, whose manual of *Economia Politica* of 1943 was the first to incorporate and illustrate the Keynesian macroeconomic scheme⁹.

Di Fenizio was “teacher” to a generation of important economic scholars, and his work can be considered as that which, more than any other, devoted attention to Keynes’s theory¹⁰.

However, on this long path the “mediation” work carried out by some scholars such as Eraldo Fossati should not be overlooked who, although anchored to Pareto’s theory of general equilibrium, considered Keynes’s theory as a “natural integration of general equilibrium”. On the basis of these premises, he added:

⁶ See Einaudi (1939; p. 134 and p. 136).

⁷ See Bresciani-Turroni (1960; p. 488).

⁸ See Papi (1956).

⁹ See Di Fenizio (1943). On Di Fenizio’s role in the diffusion of Keynesian thought in Italy see Lunghini and Targetti Lenti (2003).

¹⁰ See Lunghini and Targetti Lenti (2003).

“... it must be recognized that, if we rejected the scientific contribution that Keynes left us for an extreme defense of tradition, we would tend to impoverish our thinking by the same extent as what would result if we rejected the heritage that tradition left us as a legacy”¹¹.

In the immediate postwar period, Fossati’s attitude was shared by several other Italian economists. Writing in the early 1960’s, Fusco describes this attitude as follows:

“... this desire to accept the new without denying the old, this aspiration to reconcile theories at least apparently in clear opposition to each other, this tendency to consider non-revolutionary theoretical schemes that are gradually being elaborated, ... are in our opinion the most salient features of the attitude taken in recent years by Italian economists and it seems to us that they explain in a satisfactory way their serene and moderate reactions to the Keynesian message”¹².

This cultural climate was shared by Sirotti who was Fossati’s colleague at the Faculty of Economics of the University of Genoa from 1953 to 1958. It is no coincidence that in 1967 he entitled his economic notes *The Theory of General Macroeconomic Equilibrium*.

The initial inspiration of Sirotti’s thought does not escape the influence of the dominant economic theories: thus, in a first phase, the one that characterized Vittorio Sirotti’s theoretical and academic training, one breathes the climate of classical liberalism based on the theory of general equilibrium and its normative version, the theory of welfare, in the then dominant Robbins-like declination; while in the 1960s, new models were established in the economic policy debate based rather on development and growth models of Keynesian or structuralist inspiration, and on the idea of a public direction of the economy, to be realized through planning to remedy some “failures” of the market¹³.

As Chiodi correctly points out, the macroeconomic equilibrium in Sirotti’s vision is the result of a complex interdependence of forces that are outside the interpretative model and that affect the results. Just as alternative ways of distributing income between different groups determines the average propensity to consume (a concept highlighted by Sirotti), institutional factors and historical evolution, psychological and social elements are the variables that influence the

¹¹ See Fossati (1955; p. 90). On the possibility of integrating Keynesian theory into the Pareto approach see Fossati (1949).

¹² See Fusco (1964; p. 193).

¹³ For more information on the subject see Costabile and Scazzieri (2012).

macroeconomic equilibrium and that Keynes had the courage to bring to the fore with his innovation on the tradition of a conception based on “smooth and almost stable curves”¹⁴.

Sirotti’s statement about the fact that a more egalitarian distribution of income leads to an increase in consumption is particularly relevant: it is worth remembering that this observation is ignored by most of the macroeconomic manuals that report an exclusively linear consumption function.

In fact, the following statement can be found in Sirotti’s (1967) book:

“... if we remember that consumption is the sum of the consumption of all the economic subject of the system, if we reflect that the consumption levels of individuals economic subjects depend on levels of individual income and if we take into account that a given total income can be divided in different ways among the members of the community it is evident that, with the same total income the total consumption is different according to the different way in which the total income itself is distributed among individuals”¹⁵.

An equally rigorous presentation of the results achieved by the economic analysis on the theme of technical progress is proposed by Sirotti in a concise monograph (only seventy-eight pages) with the self explanatory title: *The definition and measurement of technical progress*, published by a small publisher, the CAS of Rome, in July 1965.

Bruno Soro eloquent reading of this little-known little book highlights

“the results achieved so far by economic science in the analysis of technical progress”.

Sirotti writes at the opening of the introduction that these results

“are not satisfactory. Attempts to measure the variable and to include it among the fundamental elements of the analysis of economic development are affected by the difficulties that arise in this sector of economic research”¹⁶.

However, this awareness opens up a rigorous analysis of the areas which constitute technical progress, areas based on the size relationships between capital, labor, and product that are still

¹⁴ See Sirotti (1965a; p. 517)

¹⁵ See Sirotti (1967; p. 19).

¹⁶ See Sirotti (1965b; p. 50).

valid and fruitful today: the first, and broadest, of which attributes a composite content to technical progress itself; while the second approach relates to its configuration as an elementary unit. In the first case, Sirotti groups in the definition of technical progress the composite causes of the effects of the increase in output following changes in the use of capital and labor. In the second, technical progress as an elementary unit is an expression of the production function in consideration of the improvement over time of scientific, technical and organizational knowledge.

From this rich interpretative analysis, Sirotti comes to the conclusion that there is no single concept of technical progress and, much less, is there a single criterion for classifying its orientation: both depend on a plurality of hypotheses and definitions which are at the basis of different theoretical schemes. He dwells, in particular, on the difficulty of applying the hypothesis of homogeneity of the product, of labor and of capital and of measuring their quantities in terms of some defined unit of measurement¹⁷. The most complex problem is precisely that of measuring the quantity of capital, which can be achieved with the assumption of very stringent conditions (a single homogeneous good, malleable without costs and without the use of time), making it problematic or, indeed, rendering the neoclassical concept of production function meaningless¹⁸. It is clear the reference to the criticisms raised by Piero Sraffa in *Produzioni di merci a mezzo di merci*, published in 1960, on the vicious circle that links price determination, capital value and income distribution in the neoclassical version and on the return of techniques. These are themes subsequently developed by Pierangelo Garegnani, who in the early 1960s, was a colleague of Sirotti at the La Sapienza University of Rome where he followed his teacher Prof. Volrico Travaglini.

Soro gives an in-depth account of these problems and of the “controversy between the two Cambridges” in the essay “A note on that ‘little book’ by Vittorio Sirotti”, and does it by reconstructing and retracing the development of the analytical development that diverged from the predominant neoclassical school: in this approach, with reference to Kaldor’s vision and with an imprint that leads to making technical progress endogenous and, substantially, to making it depend on demand factors. In this way, it is possible to distinguish the contribution attributable to technical progress “embedded” in the degree of intensity of the use of capital and the effect

¹⁷ See Sirotti (1965b; p. 74).

¹⁸ See Sirotti (1965b; p. 75).

attributable to the multiple factors that pave the way for the growth of the economy's competitiveness and the development of exports as a driving force of a cumulative process of development (like the concept attributed to Carlo Cipolla in his evaluation of the Italian Renaissance, as a model for "doing things that please the world").

Here too Soro has the ability to trace the link between masters and disciples in a dense and intriguing interweaving that leads from Kaldor (a pupil of Keynes), as principal exponent of the post-Keynesian Cambridge school, to his disciple and biographer Anthony Philip Thirlwall, who contributed significantly to the debate on the endogenous growth of labor productivity and to the formulation of the theory of growth constrained by foreign trade. Thirlwall's theory was the main object of study of Luciano Stella, disciple of Vittorio Sirotti. Stella, in two contributions reported in the volume, reflects on recent analyses on unemployment and economic growth, as well as on the persistent validity of the welfare state as a living expression of that equality-efficiency combination that had already given excellent results in the most intense years of economic development after the end of the Second World War.

Both Thirlwall and Sirotti speak of Stella in writings collected in the volume. Sirotti, in a precise and rigorous account of his disciple's professional and academic career, underlines the particular attention that Stella always paid to the social repercussions of economic problems. He also recalls that his disciple, in 1990, published a monograph on the theories of balance of payments adjustment, where, as Thirlwall states in the preface, "Stella treats with clarity and rigor the various approaches to the theory" and where he makes clear the limits of the conventional theory of balance of payments adjustments, rehabilitating the role and importance that trade plays in the process that brings the balance of payments to an equilibrium.

And in this fascinating web of relationships between the thoughts of masters and disciples, it is a pleasure to conclude with an invitation to read the volume edited by Bruno Soro with its reference by Luciano Stella to the complex relationship between the growth of productivity and development of occupation in his essay on the subject of unemployment and economic growth. This essay admirably illustrates the passion for the real economy that Luciano Stella and Vittorio Sirotti always showed and that Giorgio Rampa recalls in his testimony which is included in the volume. It is also connected to another distinguished and well remembered master of many economists, Giorgio Lunghini, of whom Stella, in the same essay, recalls the particularly

current theses on the structural change of the relationship between production of goods and employment of labor.

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