

An aerial photograph of a lush green landscape in Tuscany, Italy. In the foreground, a large, light-colored villa with a red-tiled roof is nestled among tall cypress trees. The middle ground shows rolling green hills with more trees and a few smaller buildings. In the background, a dense urban area with red-tiled roofs is visible under a clear sky.

FRUITFUL ECONOMICS

PAPERS IN HONOR OF AND
BY JEAN-PAUL FITOUSSI

EDITED BY
ELOI LAURENT
JACQUES LE CACHEUX



Fruitful Economics

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**Papers in Honor of and by Jean-Paul
Fitoussi**

Edited by

Éloi Laurent

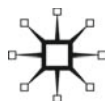
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Notes on Contributors

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Introduction: Fitoussi's Fruitful Economics

Éloi Laurent and Jacques Le Cacheux

When it comes to generosity, Jean-Paul Fitoussi is ultra-liberal. When it comes to economic analysis and policy, not so much. Here are summed up the private and public man. But Jean-Paul Fitoussi is also in between private and public, a great friend and thinking partner. This is why “fruitful economics” well describes to our eyes to what branch of our discipline Jean-Paul Fitoussi belongs.

What we mean by “fruitful economics” regarding Jean-Paul Fitoussi's scholarship is the plurality of his research agenda: he has shaped modern macroeconomics of course, but also political economy, economics of inequality, and, more recently, the economics of sustainability. A plural agenda means also in the case of him conceiving economics as open to other social sciences and even the natural sciences, not bunkerized and full of itself. Fruitful must also be understood as useful, because his work has benefited generations of policymakers around the world but also citizens, especially in France and Europe.

Finally, because this volume is also and maybe mostly about friendship, intellectual and otherwise, fruitful means that many of his ideas have over the years emerged, developed, and been tested in continuous dialogues, or better exchanges, with the five illustrious contributors to this volume, who happen to be his friends.

The formative years: assembling a modern Keynesian toolbox to serve European integration

Trained in econometrics and economic theory at the University of Strasbourg, Jean-Paul Fitoussi has always been a Keynesian economist, although interested at a very early stage in his career in the reasons why unemployment equilibria were the rule rather than the exception

in market economies. His dissatisfaction with neoclassical economics and the quantitative theory of money was strongly influenced by Don Patinkin's (1956) attempt to introduce money in standard Walrasian equilibrium analysis via a real balances effect. In the late 1960s, Robert Clower (1965) and Axel Leijonhufvud (1968) were emphasizing the disequilibrium foundations of Keynesian economics. The late 1960s, the time when he was writing his dissertation, were precisely the years in which the old consensus on the "neoclassical synthesis" – IS-LM plus traditional Phillips curve – was being challenged on two fronts, that were to lead to radically opposed predicaments: Edmund Phelps and Milton Friedman were attacking the standard Phillips curve, paving the way for the "rational expectations" or "new classical" revolution in macroeconomics, while Robert Barro and Herschel Grossman, soon followed by Jean-Pascal Benassy, Edmond Malinvaud, Jacques Drèze, and other French and Belgian economists, were exploring non-Walrasian equilibrium – elsewhere called "disequilibrium" – theory. While the latter had a strong impact on his thinking in the 1970s – witness his publications during that decade, in particular the books (Fitoussi, 1973; Fitoussi and Malinvaud, 1977), the former was to give birth to the paradigm that has dominated macroeconomic thinking for more than three decades, a paradigm that Jean-Paul Fitoussi was to methodically challenge and criticize.

From the very beginning of his academic career, Jean-Paul Fitoussi embraced general equilibrium analysis as a congenial framework to grasp interacting agents and markets. Not in the Walras–Arrow–Debreu tradition, though, with its perfect adjustment mechanisms, but for the notion of spillovers and for the systemic dimension. One major source of inspiration for that approach was the Georgescu-Roegen representation of bio-economic systems, with its embracing and heterodox intellectual ambition and its borrowings from thermodynamics, rather than the standard Newtonian mechanics that pervade standard economic theory, both micro and macro, and was to become the major characteristic of New Classical Macroeconomics.

European integration: the Florence school of political economy

Appointed professor in the economics department of the European University Institute in Florence (Italy) in 1978, Jean-Paul Fitoussi was immediately embedded in the fast evolving European integration process, and soon acquainted with this new and innovative research in what may be termed "applied European political economy." Even though the decade nearing its end had not been very successful for the

European Community (EC), with high inflation and mounting unemployment, unstable monetary parities in the failing “European snake,” then barely surviving as a “mini Deutsch Mark zone,” the horizon was clearing, both within the Organization for Economic Cooperation and Development (OECD) with the “locomotive initiative” – in which the then social democratic German government under Helmut Schmidt had accepted to take the lead in reinflating an ailing world economy – and in the EC, with the launching of negotiations to build a new fixed-exchange rate system, the European Monetary System (EMS), to be inaugurated in March 1979.

The Economics Department in Florence was then headed by Andrew Shonfield, a former director of Chatham House, a publicist, and renowned specialist in political economy, who, in the previous decade, had published *Modern Capitalism* (Shonfield, 1965), an analysis of the functioning of the mixed economy, mostly about Germany and its successful institutions – the trade unions’ co-management of firms and what is now commonly labeled the “social market economy.” Shonfield had a pervasive influence on Jean-Paul Fitoussi’s thinking, by systematically embedding reflections on economic policymaking into the broader frame of politics and institutions, especially in the field of European integration.

Emerging and contending new paradigms: microfoundations vs disequilibrium

The search for a new and firmer foundation for macroeconomic theory had been the underlying thread of much of Jean-Paul Fitoussi’s work over the 1970s. In Florence, he had the opportunity of meeting with many of the protagonists of the macroeconomic theory debate. The conference he organized in 1980, and the volume he edited (Fitoussi, 1983) testify to the liveliness of macroeconomic theoretical thinking at the time, with such participants as John Hicks, Axel Leijonhufvud, and Edmond Malinvaud.

The introductory chapter to *Modern Macroeconomic Theory* provides a clear statement of the reasons why conventional interpretations of Keynes analysis – IS-LM plus Phillips curve – have been misleading due to their common bias in favor of a Walrasian setting and the neglect of expectations. JPF argues that emphasis should instead be put on non-Walrasian equilibria, on sources of non-neutrality of money, and on expectation formation. The conclusion is a carefully argued critique of the state of the art in macroeconomic theory in the early 1980s, stressing the shortcomings of both “New Classical Economics” and the “fixed-price” approaches; it is also a plea for a return to what Keynes himself had wanted to do: to study “the system as a whole.”