

FEDERICO CAFFÈ AND ECONOMIC POLICY AS A DISCIPLINE

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ABSTRACT

The complex personality of Federico Caffè deserves attention for his uncommon qualities, as a man, a teacher and a researcher. He expressed dissatisfaction with reality and traced in his vast and deep knowledge of economic doctrines the need and the possibility for the state to intervene and change the performance of markets in a systematic way. From many points of view he anticipated the formation of Economic policy as a discipline. When this finally sprouted in Scandinavia and the Netherlands he was ready to give it a more systematic structure and spread it to the Italian academy. He was aware of the declining role of the discipline in the last years of his life and could not see its revival due to reconfirmed validity of its core.

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1. INTRODUCTION

The complex personality of Federico Caffè deserves attention for his uncommon qualities, as a man, a teacher and a researcher. As recent meetings on the occasion of the centennial of his births have shown, his contributions to economic thought have still to be assessed in a dispassionate and proper way. This is due partly to his prose, rich of citations and subliminal messages (Acocella, 2015a) and partly to the number of fields to which he contributed.

In this paper, we want to deal with only one of his many contributions to the economic science, possibly one that encompasses also some of the others. However rich his scientific interests, economic policy, both from a theoretical and a practical point of view, was at the center of them, for the reasons indicated before. Starting from a system of values caring for the well-being of people, especially the worse-off, he traced in his vast and deep knowledge of economic doctrines the economic determinants of his

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dissatisfaction with reality. He thus discerned the need and the possibility for the state to intervene and change the performance of markets in a systematic way. He did not intend to know how the economy worked, *per se*, but only for the purpose of changing it in the direction he preferred. Studying the history of economic thought and continuously updating his knowledge to the more recent theoretical and empirical findings was simply instrumental to this end for him.

The paper deals only with Caffè's contributions to the formation of economic policy as a discipline. We show that from many points of view Caffè anticipated the formation of Economic policy as an 'autonomous' discipline within the realm of economic science. When this discipline finally sprouted in Scandinavia and the Netherlands he was ready to give it a more systematic structure, contributing to its diffusion in the Italian academy. He was aware of the declining role of the discipline in the last years of his life and could not see its revival due to reconfirmed validity of its 'systematic' part.

In a companion paper (Acocella, 2015b) we investigate the main practical issues that economic policy had to face at his time and compare them with the current ones, tracing also the main theoretical developments of the discipline that can explain this evolution.

2. THE MAN, THE TEACHER, THE SCIENTIST

Federico Caffè was generous, reserved and shy, humble yet proud. The heightened awareness and wit that set him apart, well known to all those who were familiar with him, led him not to isolate himself, but rather to look around himself, and to share the problems of other people, which presented themselves in various guises: as individual cases from students, colleagues, acquaintances, or even strangers; or as issues that he perceived as common to groups of people from his perspective as a scholar, in particular to people enjoying reduced opportunities. This attitude was at the heart of his system of values. Consistently with it, in teaching, as well in influencing the conduct of academic organisations, in writing professional essays or articles for the press, Caffè devoted his outstanding analytical capabilities to the resolution of practical issues.

It was this aspect of his system of values, reinforced by his clear conviction as a scholar, which led him to interpret his profession of public employee in the fullest and most active manner. Caffè's values are reflected in his works, which were often of a seemingly subdued tone, yet exhibited a polished, scholarly, and rich prose. The declaration of his system of values together with the wealth of quotations, fruit of a vast culture and an unremitting drive for new knowledge (see also Faucci, 1995), was more than a habit, it was an act of humility and respect for the reader, whom he believed should be protected from superficial claims unsupported by others'

meditations, ignorant rediscoveries, ephemeral and pointless introduction of ideas, cultural trends, as well as from the alarmist tones and pressures of vested interest groups.

Similarly, he was fully respectful of his pupils, the development of their background and personality. His awareness of the subjective component of economic science did not translate into biased instruction. In fact, the fear of indoctrinating his pupils was always so strong in him that there were hardly any cases of him revealing his thoughts about contemporary issues to his students. And he advised Keynesians to deepen their knowledge of Monetarism and Monetarists to do the same with Keynesianism (Ciocca, 2014).

While appreciating the most gifted and being proud of his ability as a “talent-scout”, Federico Caffè was aware of the possibility of being able to contribute to individual and social progress. Thus, he believed in university education for the masses, overseeing the students' progress at all stages. In his almost 30 years of teaching at La Sapienza he supervised about 1200 Master dissertations.

His generosity led him to express, even in scientific works, deep sympathy for the problems of the poor, the unemployed and, more broadly, of those to whom society offers reduced opportunities, convinced of the fact that value judgments serve a useful role in the accumulation of knowledge and that the scholar's necessary effort to be objective consists in explicitly declaring his ideals, rather than introducing them surreptitiously or repressing them. Which was also a way for avoiding opportunism and making clear the reasons underlying possible justifiable changes in statement and visions.

His teaching, however, was not limited to lecture halls. His was a kind of permanent school, for various educational levels, which made use of a great variety of instruments, some of which, such as the translation of scientific works or production of essays for a wider audience, were meant to broaden the range of scholars and readers of economics.

3. THE CENTRAL ROLE OF VALUATIONS IN THE SYSTEM OF THOUGHT OF FEDERICO CAFFÈ

Value judgments had a central position not only in his life and teaching, but also in the development of his intellectual path. He was deeply involved in the issue of their role in social sciences. Over time this has assumed the features of a perennial puzzle of a philosophical nature, with wide differences in the opinion of economists and other social scientists, who in some cases have even changed their position through time.

While, according to the first economists before the classics and also most classical authors, there was no clear separation between ‘objective’ propositions and value judgments, a distinction between positive and normative statements began to emerge with Hume, J.S. Mill and Senior. For

a long time economists and other social scientists, up to Pareto, Weber and Robbins, tried to show both the possibility and desirability of such distinction. In particular, Robbins (1932), suggested a neat separation of economic analysis from economic policy, as only the latter needed to state goals and objectives. But Myrdal questioned this position the same year this book was published and even more forcefully later, denying both the beneficial effects of the separation and its possibility. The impossibility derives from the multiplicity of variables involved in economic reality and the uncertain results of statistical and econometric testing of economic propositions, always tied to a certain time and situation. It is true that an agreement could be reached among social scientists to suspend judgments when the outcomes of empirical tests diverge and there is an apparent degree of disagreement. However, as a matter of fact, the declaration of the need to separate objective and normative statements has often led to dissimulation of the scientist's system of values, hidden in falsely positive statements. As to the desirability of distinguishing between positive analysis and values, the beneficial role of the latter should be recognized, as they inspire and motivate scientific research and choice of the analytical field of inquiry, which is strictly related to the scientist's motivation and vision of the world. This is thus helpful in widening our knowledge of reality (see, in particular, Caffè, 1955: 5).

In Caffè's opinion, while an effort for disentangling value judgments from scientific propositions is necessary, to avoid indoctrination, one must be conscious that they cannot be totally eradicated from our knowledge of how reality works. This statement is very common in a number of Caffè's works (e.g., see Caffè, 1956b). The author of this paper also reminds his very vivid discussion of the issue in Caffè's lectures as well as later, in personal conversations with him at the time when the author translated Hutchison (1964) into Italian. In addition to being strictly linked with 'positive' analysis, presence of values in social sciences is also fruitful. This position on the fruitfulness of value judgments, better to say of 'visions', is shared by Schumpeter (1949), but Caffè had added: "it is from the insertion of new social and political premises that one can expect the economic science to progress, even if whether the outcome will be part of sociology or economic theory is an open issue" (Caffè, 1943a: 9). We can say that Caffè fully shared Zeuthen's (1959) position on value judgments (and the role and content of economic policy as a science). New premises, in turn, can derive from either new paradigms or internal developments of the theory (Caffè, 1962b: 6-8).

Almost any statement in Caffè's writings is a prelude to other statements and supports his whole theoretical construction. The statement about the fruitfulness of new value premises is not different. Take, the case of his vision of the pre-eminent importance of distribution, which for him was a prelude to stating the need for an 'equitable' distribution. On the one side, this motivates his interest in the debate about the 'new welfare economics'

(see later) and its final conclusion due to Little (1949): production issues cannot be separated from distributional ones, as claimed in relation to discussions about the possibility to disregard existence of actual payment of compensation in the case when policy action benefits some people, while making others worse off, with a net benefit for the whole economy. On the other, it leads him to repeatedly insist on the possibility to reverse the position, common in mainstream economics and often also in current policy, according to which 'increasing the cake' is a step preliminary to satisfying demand for a more equitable distribution (e.g., see his favourable comment on Ohlin's (1949) claim that high and persistent employment necessarily presupposes ensuring social peace, which reverses the order of priorities between distribution and production: Caffè, 1951: 109).

In admitting interpenetration of values and positive analysis, Caffè is not alone. Other Scandinavian economists shared Myrdal's position. Among them, and even more drastic than Caffè himself, Frisch is to be mentioned for his firm normative approach to economic policy problems. In fact, this author made a number of the analytical steps necessary to pursue this approach strictly dependent on the point of view chosen by the planner, including the very possibility of using past econometric estimations of reality derived under different circumstances as a consequence of different policy targets (Frisch, 1961). This is even more striking if one considers that Frisch was one of the founders of econometrics as a discipline. Caffè, in partial contrast to Frisch's position, clearly states that there can be a more analytical stage in the economic science, while maintaining the impossibility to separate value judgments from 'positive' economics (Caffè, 1962).

A comparison between real life and his values, enriched by his deep and vast knowledge of the history of economic thought, not disregarding its most recent developments, indicated to Caffè a possible road for reforming reality and furthering policy goals consistent with his values, which was his pre-eminent aim (in the same sense see Faucci, 1995, in particular, p. 78). It was thus easy or 'natural' for him to focus on economic policy, rather than on purely analytical research, which, however, he did not disdain. This made him to insist on a normative point of view to look at reality within the wide realm of the economic science and can thus explain his intellectual path (Schiattarella, 2015).

Before turning to the development of Caffè's contribution to economic policy let us describe the slow process through which this discipline finally emerged abroad and its main pillars, which we do in the next section.

4. THE SLOW PROGRESS OF ECONOMIC POLICY AS AN EMERGING DISCIPLINE

The process of developing what I will call the 'core' of economic policy has been rather slow. At least since the industrial revolution, markets tended to be the leading economic institution. The main economic doctrines differed

on the assessment of the relative performance and role of markets and the state (Roncaglia, 2005). However, at least from Adam Smith on, the prevailing economic doctrine attributed to the former the role of being able to pursue 'the public interest', with limited contribution by other institutions, notably the state.

Until the end of the 19th century, the doctrine had indicated a little more than a collection of examples of market failures and, thus, cases for public policy intervention, aiming at ensuring efficiency and/or equity. Caffè (1966a) documents that most classical writers and the marginalists had suggested cases where public intervention was in order, in particular in the case of taxation. This was so for Smith (1776), Ricardo (1817), Mill (1848), Walras (1874-1877, 1898). But their cases in favour of government intervention were not part of a systematic and consistent assessment of the foundations and the articulation of public policy. This only began to emerge towards the end of the century. The first attempts to develop such a theory were those of Sidgwick (1883), Marshall (1890) and, more important, Pigou (1912, 1920), who also laid down essential principles for state intervention, partly connecting it to the preferences of citizens (Caffè, 1962a, 1964a). However, until the 1930s these principles were condemned to be applied to a limited set of circumstances. Generally speaking, supporting the virtue of markets was the commonly held view inspiring political parties and governments and this view was not contradicted by the rather satisfying evolution of the economy in most developed countries – also as an effect of a number of favourable economic circumstances – until the end of WWI and the post-war recovery.

In the 1930s, important factual changes in the economic performance derived from the difficult adaptation to the post-war economic and the social situation of some countries (e.g., the United Kingdom), especially if this was approached to with the old pro-market lens and policies. Even more importantly, the emergence of the prolonged Great Depression and the progressive contraction of international economic exchanges of goods and capital showed that the re-equilibrating capabilities of a market system were too limited, thus prompting new analytical and policy developments. Caffè was well aware of the fact that only in some cases changes in economic paradigms can be attributed exclusively to changes in reality, as internal developments of the theory also play a role. In our case, the Wicksellian tradition in influencing Swedish authors was also important for the outgrowth of macroeconomic analysis and stabilization policy (Caffè, 1978a, 4th ed.). Thus, Keynes (1936) introduced a new important case of market failure, as a consequence of both factual and theoretical changes. Unemployment was the first of a macroeconomic type of failures. It was soon complemented by another case of similar failures, low growth. Reflecting on the prolongation of unemployment, which had protracted for the whole 1930s, a Keynesian economist, Alvin Hansen, suggested – or reconsidered, but in a different perspective – the hypothesis of a secular stagnation, already indicated by

Sismondi, some other classical economists as well as some Marxist writers (Hansen, 1939). This should characterize the end of the era of growth and prosperity featuring the Western world after the Industrial Revolution. For a long time until the early 1940s and then at the end of WWII this hypothesis concerned economists and policymakers; and has been suggested again as one of the possible consequences of the Great recession. During WWII, inflation added to macroeconomic targets and was effectively tamed in Anglo-Saxon countries by price and income policies. Finally, after the war, as countries re-opened their economies to trade and investment, balance of payments equilibrium complemented the three macroeconomic targets devised until then.

In the 1930s, some new conceptual tools were forged that are useful for empirical analysis and policy: national accounting, econometric analysis and input-output. Moreover, as an important case of a pure analytical development, a large debate began towards the end of the decade and continued after WWII on the application of the basic principles of microeconomic policy intervention in a way to enlarge the cases of government action beyond those envisaged by the Pareto criterion. This was the so-called 'new welfare economics'. We already said that, as a conclusion of this debate, the need emerged to assess production issues together with distributional ones. For Caffè this was important as a way to assert the relevance of distribution.

Thus, after WWII there existed a set of propositions clearly defining both the microeconomic and the macroeconomic foundations for government intervention. This then became much more widespread and penetrating, aiming not only at traditional microeconomic goals and full employment, but also to new macroeconomic targets, which altogether made up the 'magic square' later introduced by Kaldor (1971), i.e., unemployment, inflation, growth and balance of payments equilibrium. The new theories and war experience had showed the importance of using different policy instruments (monetary and fiscal policy) and showed the possibility to add price and income control to these, while the International Monetary Fund, even within a fixed exchange rate system, allowed for parity adjustment.

The need then arose of managing the different policy tools in a way to take account of the interrelations among the various targets – following guidance from input-output analysis, national accountancy and econometrics – and prepare a consistent and effective program (a plan), possibly covering more than one year, as the Marshall plan – whose source, the US, was certainly beyond suspicion of sympathy for dirigisme and leftism - itself required.

The theoretical advances of the 1930s and the changes in the economic and social conditions as well as in policy aspirations following the war prompted a radical innovation in the way policymakers conceived their goals, scholars looked at economic policy and in due time generated a

theory capable of dealing with the new issues, thus conceiving economic policy as an autonomous discipline.

Just after WWII an experience of planning had begun in Norway and the Netherlands that was not limited to the contingencies of the after-war. This was so also in other developed countries (with the main exception of the USA) under different forms until the 1960s and 1970s. From the experience of these two countries, two authors in particular drew inspiration for the theory of economic policy, while making use of the theory in order to improve practice. The first step in this intellectual process was the statement of the 'theory of economic policy' by Frisch, whose approach was in terms of 'flexible targets' (1949, 1950, 1957). Tinbergen – who had built the first econometric models of the Dutch and the US economies in 1936 and 1939, respectively (Hughes Hallett, 1989) – drew inspiration from Frisch, as he recognized (see the introduction of Tinbergen, 1952), but followed a different approach. In fact, Tinbergen (1952, 1956) developed the theory in terms of 'fixed targets', suggesting that a number of instruments at least equal to that of targets should be available to the policymaker in order for him to be able to exactly reach the set of target values he preferred (Tinbergen's golden rule of economic policy). Frisch's route was instead followed more closely by Theil (1956, 1964) and became the general way of setting a policy problem in a 'parametric context'. The policymaker, in the same vein as a household, should make a plan tending to maximise his preferences, or to minimise a loss function in terms of quadratic deviations from a set of target values for the variables of interest, under the constraint of a set of equations describing the given behaviour of the economic system. In the case where he has a sufficient number of instruments – as indicated by Tinbergen's golden rule - the loss function is minimized and the set of fixed target values is consistently reached by using appropriate instruments.

The second step in the process of conceiving economic policy as an autonomous discipline consisted in defining its 'core'. This was done by associating the two essential branches of this 'core', i.e. the analysis of consistency rules of public intervention to existence of market failures, i.e., the theory of economic policy to the logic of economic policy: the latter justified government intervention; the former indicated whether and under what conditions the various instruments are effective and how they should be designed. As underlined above, a set of microeconomic failures had already been indicated around 1900. After WWII they were investigated in a systematic way and codified, e.g. by Kapp (1950) and Bator (1958). Asymmetric information as a cause of market failures came much later (Akerlof, 1970). However, more relevant from the point of view of computation and the definition of policy programs were the macroeconomic failures introduced since the 1930s. Market failures as the logic of economic policy together with the theory of economic policy as a tool for ensuring

consistency and effectiveness of policy action thus became the ingredients of the core of the discipline.

A difficulty soon emerged (Arrow, 1951) from the impossibility to start from individual values to define choice of the goals of the SWF. In order to bridge the gap between individual preferences and policy goals, Frisch devised the expedient of referring the SWF to politicians' preferences, thus adopting the perspective offered by Bergson's (1938) formulation, to which also P. Samuelson (1947) had added. From a practical point of view this was enough. SWFs should be derived from official documents and statements or interviews with policymakers (Frisch, 1957, 1970). The democratic process would ensure consistency between the government's preferences and those of the constituency. In his Nobel lecture, Frisch states some of the rules to be followed for deriving such a function – as a first stage in the process of cooperation between experts and politicians – and adds that he had a number of tests of their practical effectiveness.

Zeuthen (1958), a book which had a large diffusion in Scandinavian countries, was the first (and successful) attempt to offer a systematic and consistent summary of developments in both welfare economics and the theory of economic policy, as cornerstones of economic policy as an autonomous discipline. The discipline entered the curricula of master degrees in Scandinavian universities in the 1960s and 1970s through Tinbergen (1956), Zeuthen (1958), Johansen (1977, 1978), etc. as textbooks.

5. CAFFÈ'S METHOD AND PROGRESS TOWARDS ANTICIPATING ECONOMIC POLICY AS A DISCIPLINE

Caffè's first writings are in applied economics. His first essay (Caffè, 1942) deals with grievous current issues, being about 'Spontaneous and forced savings in war financing'. In the following years it is always his propensity to care for current important issues that absorbs his energies, as an employee of the Bank of Italy and an expert or a member of various public bodies, directed at economic reconstruction of the country and drafting of its new Constitution.

In some of his numerous essays published between 1943 and 1948 he explicitly refers to both microeconomic and macroeconomic market imperfections as a justification for government intervention (Caffè, 1943a), suggests democratic planning as a vital instrument for dealing with the many problems of reconstruction and possibly also with the different goals that would arise in normal times, by using the whole set of policy instruments. He also cites experiences abroad, particularly in the Netherlands under the impulse of Jan Tinbergen (Caffè, 1943b, 1945, 1946a, 1946b, 1947, 1948a,b). In these essays he links planning to market failures, not only for the contingencies of that time, but also for more enduring reasons. In a series of reflections from 1947 to 1949, starting

again from market failures, he also firmly criticizes current policy attitudes and implicitly, but clearly, states a program of macroeconomic policy dealing with the main issues of the time, i.e. employment, inflation and the balance of payments, making use of public investment, monetary and credit action, the exchange rate and foreign aid. His awareness of the changing nature of policy issues, which need flexible actions, is to be stressed (Caffè, 1949a, b, pp. 282-4 in particular). In other essays he discusses the role of public investment (Caffè, 1954b, 1958b), interest policies and investment (Caffè, 1954a) and other policy instruments.

In the following years, starting in 1953, he deepens his theoretical apparatus, being interested in one of the issues he had briefly touched upon in his papers on planning, i.e. market failures and the microeconomic policy agenda. He thus writes a number of essays on what he later will call 'the logic' of economic policy, thus dealing with microeconomic failures of the market, following the evolution of the debate on them through time, from the old to the new directions taken on this topic. He also translates the main contributions of the new welfare economics into Italian (Caffè, 1953a, 1956a,b).

Caffè's interest in actual problems has thus found two firm theoretical foundations, the logic and the theory of economic policy, i.e. what I call the core of economic policy. However, his intellectual formation completes only when he finds two important links. The first is what he draws from his mentor, Gustavo Del Vecchio, conceiving the path from analysis to policy as given by different stages of a unitary science, each having a theoretical setting. Thus, by mid-1950s he possesses all the ingredients for conceiving economic policy as an autonomous discipline in this realm, together with a deep and vast knowledge of institutions and history. However, he fails to link the two parts of this core one to another. Knowledge of Zeuthen (1958) finally sparks his conception of economic policy and he edits the Italian translation of this book into Italian. How Caffè discovers the book, published only in Danish, a language he does not speak, is unclear. Most probably, Caffè already knows Zeuthen both for his previous publications in English (including an incomplete essay that had been requested to him by Editor of the Quarterly Journal of Economics and was published posthumously, Zeuthen, 1959) and the Italian translation of part of one of them. He certainly has not traced Zeuthen (1958) directly, as he does not speak Danish, or indirectly, e.g. through Schneider's obituary in *Weltwirtschaftliches* (Schneider, 1959), as he does not read German.

Caffè uses Zeuthen (1958) as one of the compulsory references in his academic course of economic policy, from 1961 to 1964. The book, while being very suggestive, proves to be rather hard to digest for most students. This might be one of the reasons why Caffè decides to write his own book and prepares the necessary bricks for it, both drawing from his previous research and undertaking new research for filling the process of formation of policy agenda through the contributions of classical and neoclassical

economists (Caffè, 1962a, 1964a). The logic of economic policy, including both micro- and macro-economic failures, is completely developed in a historical perspective in his Caffè (1964b). Finally, in 1965-1966 the first volume of his new book on economic policy is published where he states his version of the whole core of the discipline, with a weight attributed to its two parts more balanced than Zeuthen's (1958), where the logic of economic policy was predominant (Caffè, 1970). Application of these principles to current policy, especially with reference to Italy, is made in the second volume of the book (Caffè, 1970).

Caffè's systematic statement of the foundations of public intervention, its design in theory and in practice – what goes under the name of 'normative' economic policy – apparently omits a detailed discussion of government failures, what later has been often referred to as 'positive' economic policy. This is not so because he does not think that government failures are irrelevant. In fact, many essays of his often refer to such failures. Probably, at the time he wants to state the normative approach as the useful innovation to take as a yardstick. In any case, he thinks that a large number of government failures is simply due to scarce people's information, participation and control.

Why Caffè does not write a book on economic policy as a discipline himself, before Zeuthen, while possessing all the ingredients of its core and also having deep knowledge of the working of economic systems, in particular of the institutional and historical features of the Italian one? There may be a number of reasons, among which a personal reluctance to make up something of the kind of a 'Harlequin costume', rather than a 'coveralls' (a quote drawn from a philosopher, Guido Calogero: see: Caffè, 1977a: 11) drawn from critical analysis of the various contributions to economic thought. This reluctance is apparently disproved by his mess of quotations, which often hide his personal convictions. But this is only appearance. Again, a scientist can follow two roads when expressing his ideas: hiding the sources of his reflections or hiding his ideas and letting the source of his reflections speak. The former is chosen by Adam Smith. Federico Caffè prefers the latter, as an effect of his personal inclination, respect for others and for pluralism, modesty and reluctance to speak in the first person, associated to consciousness of the vastness of his ignorance, of 'the little light and the large circle of shadow' prevailing at all levels of learning (to repeat the expression he uses in a letter to a former student and friend of him, drawn from a popular Italian novel writer of the 20th century, Virgilio Brocchi) (Amari, Rocchi, 2007: 1011). Contrary to the apparent derivation of bits of his analysis from other authors, he follows a very clear line of reasoning of his own, not only in each essay, but also in his whole contribution to economic policy (see also Faucci, 2002). Added to this is his preference, also for didactical purposes, for open and critical analysis of the history of economic thought rather than formal and closed analysis, a derivation of his inclination to apparent eclecticism, as well as his theoretical

background. His eclecticism – which is anyway “rigorous, selective, critical” (Ciocca, 1995: 149) – might also derive from acceptance of Del Vecchio’s (and, before him, Pantaleoni’s and Einaudi’s) ‘whig’ conception of economic science as being characterized by progress without breaks (Fauci, 2002: 366-367).

6. THE DEVELOPMENT OF THE DISCIPLINE IN ITALY

In Italy Economic policy was hardly taught as a discipline at least until mid-1920s. Economic policy as an autonomous theoretical discipline did not find a way to Italian (and, to my knowledge, French and Germany) tertiary courses, mainly because of the lags in the reception of its basic ingredients. Trade and colonial policy and law was its main substitute (Tiberi, Frinolli, 2006; Tiberi, Fubelli, 2006). In 1925 the term was coined and the discipline soon became a compulsory academic course (Pomini, 2012). However, its content remained pretty the same as before. Most Italian economists, usually people also engaged in the administration of practical policies, had followed the autarchy and corporatism credo dictated by the Fascist regime, but, being isolated from theoretical developments abroad, did not possess many of the instruments necessary for a systematic approach to economic policy. Understandably, those Italian economists who had maintained a pro-market attitude, e.g. Gustavo Del Vecchio, confined Economic policy to a subordinate role with respect to theoretical economic analysis, with no analytical content of its own (Del Vecchio, 1933), as Pomini (2012) comments.

The first real systematic attempt to gain breadth to the discipline by relating it (in a loose way, really) to market imperfections, devising different main directions of state intervention and distinguishing home and foreign economic policy directed to different targets, was Bresciani Turrone (1942). However, the second edition of this book (Bresciani Turrone, 1960), while having a deeper analytic feature, had a quite different content, mainly focused on money, international trade, balance of payments and monetary systems, losing part of the breadth of the previous edition. A textbook used at La Sapienza University of Rome until early 1960’s was Fantini (1962) whose previous editions had a different title (Fantini, 1943, 1948). To some extent this followed Bresciani Turrone’s path, but, while containing chapters on banking, monetary, financial, transport, labor, trade and international policy, this book lacked a systematic part of foundations and methodology of economic policy as well as macroeconomic policy. Similar to this was Franchini Stappo A. (1963, 1964).

In the early 1950s practically only a few Italian scholars had introduced – or were about to introduce – Keynesian thought in Italy, starting from Vittorio Marrama, Giuseppe Ugo Papi, Alessandro Franchini Stappo, and Ferdinando Di Fenizio. Only a few Italian scholars had introduced

progresses in welfare economics in Italy (Caffè, 1953a, Lombardini, 1954), which is apparently strange, as these were based on Paretian foundations and there were academics following Pareto's method, such as Amoroso. Only a few of them had done the same thing for the theory of economic policy (Caffè, Marrama and, to some extent, Di Fenizio). In some cases, theoretical advances abroad were introduced under the form of textbooks by Italian authors. In other cases, some Italian journals hosted either important original articles by foreign authors or their translations. Translations of books or essays collected as books also played an important role. The intellectual openness of these economists was crucial also in their propensity to encourage their pupils to complete their preparation abroad, mainly in the United Kingdom and the US.

By the beginning of the 1960s all the premises for devising a consistent and rather autonomous set of propositions to be called Economic policy were there in Italy. The only problem was about the weights to assign to the different possible ingredients. There were two main lines along which the discipline was systematically introduced, by two scholars: Federico Caffè and Ferdinando Di Fenizio.

As said, Caffè had searched for all the possible key ingredients for conceiving economic policy as an autonomous discipline. Indeed, he did so first by publishing two short books (Caffè, 1964b). These were then developed into two larger volumes (Caffè, 1966a, 1970). A few years later Caffè, who had been impressed by the 1968 students' demands, tried to cope with them by rendering the two volumes easier to read and summarizing them in a single volume, at the cost of hiding some technical and analytical passages (Caffè, 1973). Economic policy was conceived as consisting of a part discussing: the ultimate targets of economic policy, derived from welfare economics, problems of social choice, planning, specific (in particular short-term) policies. Such a discipline should draw mainly from economics, but also from other sciences, such as social sciences, mathematics and statistics. Caffè's path was followed by a group of economists in Naples, led by Augusto Graziani, who wrote a book first presenting foundations for public economic action, the theory of economic policy, detailed policies aiming at specific short-run or long-run targets (D'Antonio, Graziani, Vinci, 1972). The method followed in this book, while maintaining the content of the discipline as devised by Caffè, had a quite different setting: instead of being rich of critical quotations of the relevant literature, it stressed the analytical content of the decision models that can be built in order to pursue certain targets by using a defined set of instruments from a formal point of view. More encyclopedic was Forte (1970), which was preceded by Forte (1963).

Other authors followed a path partially different from Caffè's. Di Fenizio wrote a monumental course of economic disciplines in five volumes, devoted to: the method in economics and economic policy, macroeconomic agents and economic flows, the consumption function, short-term diagnosis,

analysis and policy, macroeconomic planning (Di Fenizio, various years). An original route was followed by Franchini Stappo A. (1971, 1976, 1982), which explored connections between the concept of power and economic policy. The importance of Franchini Stappo's approach must be noticed, as the concept of power will underlie the more recent revival of the theory of economic policy in strategic terms, which has counteracted the attack to its core (see section 7). All these books include to a large extent at least some of the ingredients of what I call the core of economic policy.

For many years these were practically the only economic policy textbooks circulating in Italy, widely adopted in many universities. Only around 1990 other textbooks were written. Some of them practically followed Caffè's route, either complementing and updating Caffè's or deepening its analytic content (Acocella, 1989; Palmerio, 1993). Along lines similar to those of Caffè, D'Antonio, Graziani, Vinci and Forte, but with greater attention to social choice and positive economic policy, are Balducci Candela, 1991 (later Balducci, Candela, Scorcu, 2001) and Acocella (1994, later also 1999) and Cagliozzi (1994).

Valli (1986) is an example of a different approach, with almost no reference to welfare economics and the theory of economic policy, but more open to long-term issues and thus also to discussing the institutional and comparative setting, which to some extent was inspired by Di Fenizio's interest in such topics. Predetti (1989) explored methodological issues related to economic policy. A few textbooks dealt with economic policy only in strict reference to analytical short-term models (Marelli, 1992, then Marelli, Signorelli, 2010) or to specific Italian problems (Bianchi, 1994).

The following years saw a flourishing of textbooks: Ciccarone (1997), Palmerio (1997), Franchini Stappo (1993), Campiglio (1999), Chiarini (2004), containing the ingredients already present in their predecessors, with different weights. Ciccarone and Campiglio discussed problems of welfare economics and social choice; Chiarini dealt with decision models. Persson, Tabellini (1990) added policy considerations derived from the literature on time inconsistency, credibility and rules.

7. CAFFÈ AND THE DECLINE OF ECONOMIC POLICY AS A DISCIPLINE: THE ATTACK TO THE CORE

How contemporary are Caffè's ideas? To answer this question we need many reflections. The first one has to do with the changes in the prevailing analytical orientations. In the last thirty years or so, the role of economic policy as a discipline as he had anticipated and expressed in a systematic way, has declined. In the previous two sections we saw that economic policy as a discipline had clearly emerged not only in Scandinavia, the Netherlands and in Italy. Some of the books in the tradition of Caffè's systematic setting (Acocella, 1994, 1999) were translated into English, Chinese, Polish and Croatian, being in some cases used in academic

courses, but in most countries, especially outside Europe, the discipline is almost inexistent. Also in many European countries, including Scandinavia, the concept of a discipline starting from welfare economics and social choice, including the normative and positive theory of economic policy and then dealing with specific policies and targets, taking account of institutional and historical mediations before applying economic analysis for policy prescriptions has not survived. The reasons for this could be:

1. The specific circumstances – in terms of historical factors, including history of economic thought – favouring the emergence and flourishing of the discipline in Scandinavia, the Netherlands and Italy.

2. The rise and spread of the Anglo-Saxon school of thought, which has taken the lead over (other) national schools and traditions since the 1960s and has now led to a rather homogeneous literature, using the same language (English), the same methodology and building economic models based on similar visions and methodologies.

3. The negative attitude of mainstream Anglo-Saxon thinking towards active policy intervention matured in the two decades since the end of the 1960s, due in particular to: the introduction of the expectation-augmented Phillips curve and the assertion of a vertical long-run curve (Phelps, 1967, Friedman, 1968); fiscal policy neutrality in the presence of ultra-rationality (Barro, 1974), monetary policy neutrality with rational expectations (Sargent, Wallace, 1975); generalized policy neutrality, time-inconsistency and the need for rules rather than discretionary public action under rational expectations (Lucas, 1976, Kydland, Prescott, 1977, Barro, Gordon, 1983); the need for an independent conservative central banker (e.g., Bade, Parkin, 1978, Rogoff, 1985); the emergence of various positions and 'schools' stressing the limitations of a theory, such as the 'classical' theory of economic policy, that ignores the identity of policymakers, their political and personal objectives, and thus the numerous agency problems arising in public governance (e.g. Downs, 1957, Tullock, 1965, Niskanen, 1971, Nordhaus, 1975, Hibbs, 1977, Alesina, 1987, Alesina, Tabellini, 1990, Persson, Tabellini, 2000).

In addition to negative positions for specific tasks of the government, a more general positive attitude towards free markets and a negative one towards institutions aiming at correcting or substituting it has emerged, which are now part of current conventional wisdom.

4. Absence of theoretical advances in crucial areas of economics such as the theory of economic policy, after its practical demise as an effect of the Lucas critique. An absolute pre-condition for the existence of economic policy as a discipline is the existence of firm foundations for its core, i.e. absence of 'vital' deficiencies in it.

In the case of economic policy, this has to do first with recognition of the existence of market failures. Other pre-conditions refer to the possibility or necessity of supplementing (or substituting) market decisions (as an

institution expressing people's preferences) with consistent and effective public action.

In the period we are referring to now, no theoretical or practical objections were raised involving the existence of market failures. By contrast, as already said, Akerlof (1970) added to these by introducing asymmetric information. It is true that Coase's propositions (Coase, 1960) might be interpreted as a way to re-habilitate markets or at least part of their failures, but this argument would run against fundamental theoretical difficulties (Acocella, 1994: 104-106, English tr.).

By contrast, logical and empirical objections were moved as an effect of the innovations introduced in the two decades after mid-1960s. Some such objections contributed to develop parts of economic policy and generated new fields of inquiry. Some others have been fatal until recently to the survival of economic policy as an autonomous discipline and have contributed to its decline, while supporting the theoretical orientations of the Anglo-Saxon schools, referred to in the previous section.

The most awkward part of objections to the content of economic policy dealt with government failures. I divide them in two types: those that can be called 'minor' failures, on the one hand, and 'vital' failures, on the other.

'Minor' failures indicate government failures that have been emphasized by the 'positive' approach to economic policy, especially by the Public Choice School. Some criticisms of this kind had already been raised before 1967 and were enriched later by a copious literature. They stress very important factors, such as corruption of politicians and their capture by powerful interest groups. However, such factors must be taken account of in practical policy together with a number of other institutional and historical features characterizing the issue in question and should be part of the discipline when policy action is to be devised in practice. These objections can be dealt with in analytical terms similar to some of those referred to as 'market failures' (asymmetric information). Both markets and governments, as human institutions, are imperfect and economic policy as a discipline could be a way to devise how they can complement one another, having recognized that both are imperfect, but can be designed in a more rational way.

By 'vital' failures we refer instead to two types of objections: the impossibility of taking people's preferences as a reference for public action, underlined by Arrow (1951) and 'radical' objections to effectiveness of public action of the kind raised by Lucas (1976).

Let us refer to them in turn. After Arrow's contribution, a number of economists showed that his 'vital' objection to the possibility of deriving a SWF could be healed in much more (theoretically) acceptable ways than were the remedy that had been suggested by Frisch (1957) and already mentioned in section 4, which referred such function directly to politicians in charge (see, e.g., Sen, 1970).

The second type of 'radical' objections to the discipline, i.e. those concerning the effectiveness of economic policy, are essentially due to introduction of expectations, in particular the assumption of rational expectations in a context similar to Lucas (1976). Some of these objections tended to negate the effectiveness of policy action even in the absence of agency issues. In their weakest form they constrained public policy into a Nessus shirt by prescribing policy action only under a rather rigid set of rules to avoid time inconsistency and sub-optimal outcomes. Stronger versions of this kind of criticism negated any active role to public policy in conflict with the conduct of private agents. These problems have long been unaddressed, thus contributing in a decisive way to the decline of economic policy as an autonomous discipline.

However, advances in the last decade or so have shown that most statements of policy neutrality and the policy prescriptions of the 1970s and 1980s were unfounded or of minor relevance. In more details, there have been advances reversing or appreciably mitigating such statements and prescriptions, e.g., in the following crucial areas: the irrelevance of many critiques to the 'classical' theory of economic policy (in particular, Tinbergen's 'golden rule' about conditions to be satisfied for the government to control the economy and pursue its targets) based on rational expectations (Acocella, Di Bartolomeo, 2005; Acocella, Di Bartolomeo, Hughes Hallett, 2013); the theoretical and practical limits to time inconsistency and thus to related prescriptions of policy rules that should replace discretionary action (Blinder, 1998: 56, Acocella, Di Bartolomeo, Hughes Hallett, 2013); existence of a long-run non vertical Phillips curve (more recently, Benigno, Ricci, 2011, Acocella, Di Bartolomeo, Tirelli, 2014); the need for more active fiscal policy and regulation (especially with respect to financial markets and institutions) once some unrealistic assumptions of current models are ruled out; the need, in the presence of public transfers, of a rate of inflation higher than that close to zero rate prescribed by the consensus view of New Keynesian models (Acocella, Di Bartolomeo, Tirelli, 2015); the assertion of very low (Barro, 1974) or even negative spending and tax multipliers (Giavazzi, Pagano, 1990), rejected by, e.g. IMF (2010), De Long, Summers (2012), Blanchard, Leigh (2013), Semmler, Semmler (2013), which all find high values of the multipliers.

8. CONCLUSIONS

There has been some difficulty in reconstructing Caffè's thought. To some extent, this is due to its complexity as well as to Caffè's rich prose and wealth of citations. In many cases the message that Caffè wanted to transmit to his readers is implicit and subliminal (see Acocella, 2015a), which makes it more difficult to detect the novelty of his contribution and

suspect that everything he says had already been said by others. This interpretation is however misleading.

Why did he so often quote other authors? Is this simply an effect of his deep and vast knowledge of the history of economic thought? Could not be his main scientific interests and contributions in the realm of this discipline rather than in economic policy? Or are there two different types of contributions in both these disciplines in this field that are kept one separate from the other?

These are apparently legitimate questions that some authors have answered in a positive sense (see, e.g., Roggi, 2014, as for the existence of two separate lines of enquiry in Caffè, history of economic thought and economic policy). However, the most likely explanation is that Caffè, while being profoundly aware of the richness expressed by economic thought, had a well-structured position on each of the topics he was interested in, which can easily escape at first. Caffè's thought can emerge only after a careful analysis of his words. In order to do this, one must consider that citation of any author never implies Caffè's complete adherence to this author's system of thought. He could take only a part of this as a brick for his own system. His pupils have a disadvantage in interpreting it, as they could be misled by their devotion. However, they can also help in suggesting interpretations of his thought consistent with his value judgments, character, way of life.

How valid and actual are Caffè's ideas? Firstly, one must not forget his "happy synthesis of ethics, history and economics" (Acocella, Rey, Tiberi, 1999). In his case, the whole is certainly different and larger than the sum of its parts. His conception of economic policy as a discipline that needed a theoretical background to be a firm guide to action led him to a conception distant from every metaphysical determinism. His message – contained in a number of considerations filtered by his deep and vast knowledge not only of the history of economic thought, but also of history and institutions – is lasting. The recent disproval, shown in section 7, of many conceptions of the 1970s and 1980s and rediscovery of the validity and fruitfulness of Caffè's arguments in favour of significant parts of the core of the discipline, which in some cases has been obtained by researchers trained at his school, show exactly that. However, the objections to such conceptions are still largely neglected, as these have left numerous intellectual heirs and even more significant practical applications in current policies and existing institutions, especially in Europe. Caffè would have moved an additional objection, derived from Del Vecchio's conviction according to which economic science comes from history and comes back to it, without reducing to it, being thus a discipline far away from any mechanistic conception.

This implies that Caffè, in a way similar to Keynes, expounded a message of a possible way to make social well-being to progress (Amari, 2015). At the same time, it does not imply that application both of Caffè's ideas and

the recent findings will be made by policymakers along the same line he advocated, as this would need a number of additional conditions to be satisfied. Vested interests will certainly resist to them.

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