

## Keynesianism in France

According to Pierre Rosanvallon (1987), Keynesianism arrived very late in France but its triumph was complete. It offered a common language to a large group of senior officers and engineers working in public administration and nationalized firms. It reconciled the French tradition of Colbertism with the necessity of a modern State. Richard Arena (2000) insists also on the fact that Keynesian ideas spread in a hostile context and initially outside Universities and academia where typically French economic traditions dominated. The situation in universities started to change in the 1970s and 1980s when curricula in French Universities began to incorporate macroeconomic courses based on IS-LM. We will retrace the unfolding of this historical process and also insist on the variety of heterodox interpretations of Keynes that flourished in the French context.

Keynes was widely read in France since the 1920s. Five of his books were translated from 1922 to 1933: *The Economic Consequences of the Peace* (1919), *A Revision of the Treaty* (1922) under the title *Nouvelles considérations sur les conséquences de la paix*, *The Tract of Monetary Reform* (1924), a collection of previous articles under the title *Réflexion sur la France et sur quelques autres sujet* (1928), with seven editions, and the *Essays in Persuasion* in 1933. Note that the *Treatise on Money* was never translated. *The General Theory of Employment, Interest and Money* (1936) was translated in 1942 only by Jean de Largentaye and the book remained difficult to find during the war. Keynes was seen more as a pamphleteer and as a journalist than as a theoretician. His analysis of the Treaty of Versailles raised the hostility of the majority and classified him as a pro-German intellectual.

Rosanvallon argues that before the war, French economists did not perceive the ideas of Keynes as original. One reason was that they identified his proposals to the policy of Doctor Schacht in Germany and saw them as “closed economy policies”. On this score he was seen as pro-German once more. The other reason for this perceived lack of originality was the fact that public works to cure unemployment had a long history in French politics. In 1848 already, “national workshops” had been set up to guarantee the “right to works” and cure unemployment. And in the early 1930s, various proposals of public works programs had been discussed and implemented. Besides, Socialists and Communists in the 1930s opposed planning and reformism. The aim was to overthrow capitalism whereas Keynes accepted it.

So before and after the war, Keynesian ideas met with a remarkable hostility coming from the established currents of thought in France both outside and inside academia: the liberals, the neo-marginalist, the socio-economists and the realists (Arena, 2000). One of the most prominent French economists of the Inter-War and Post-War period, Jacques Rueff clearly opposed Keynes’s ideas on economic policy. The views of Rueff were rooted in the French liberal tradition dating back to the works of Jean-Baptiste Say but also in the theory of Walras learned in the course of Clément Colson, Professor at Ecole Polytechnique. Rueff still expressed his hostility towards Keynes in the 1960s when he published *The Age of Inflation* (1965). *In this book he wrote:*

*The General Theory* legitimates the creation of purchasing power caused by investment without prior savings and succeed in presenting a necessity as a virtue. In this way, it creates the propensity to inflation that decisively characterizes Post-Keynesian economies. (1965, quoted by Rosanvallon).

For Rueff, Keynes' *General Theory* was based on assumptions of wage or money supply rigidity. If those assumptions gave way nothing would prevent the restoration of full employment. Charles Rist (1948), also defending a liberalism based on Walras' theory of general equilibrium, attacked Keynes' conception of causality to which he opposed the Walrasian notion of interdependency. Realists and socio-economists were also critical about Keynes. André Marchal (1953), for instance, criticized the lack of sociological data explaining group behavior and the mechanical representation of production in "Post-Keynesian models". Raymond Barre (1950) criticized the ambiguity of an approach intermingling a notion of instantaneous equilibrium and a notion of causality implying the existence of dated variables. Among the neo-marginalists, Maurice Allais was a particularly important figure. Arena (2000: 990) writes that his book, *Economie et intérêt* (1947) should be seen as a criticism and a reply to Keynes in particular concerning the theory of interest. Arena has collected the adjectives used by Allais to depict the approach of Keynes like "obscure", "a work dominated by sentiments and intuition" or "fragile". All this point to an opposition concerning the method of economics that one can also find in the introduction of John R. Hicks' *Value and Capital* (1939), the British equivalent of the work of Allais (Béraud, 2014). François Divisia (1962), a student of Colson, referred to a "filiform reasoning". They rejected Keynes' conception of saving which had to be considered as the result of an intertemporal choice. They opposed the notion that the rate of interest was essentially real to the monetary view of Keynes. Finally, they considered that Keynes' theory was essentially based on an arbitrary assumption of wage rigidity.

In spite of this hostile context, Keynesian ideas progressively made their way in France. According to Rosanvallon (1987) and De Largentaye (2017), three groups began to study Keynes' *General Theory* before the war. The first one was composed of young civil servants, the second one of students of Polytechnique and named X-Crise and the third one was composed of members of Unions and called the "planers". The first Keynesian economists in France may have been George Boris, Jean De Largentaye and Robert Marjolin. George Boris was a journalist. A defender of the New Deal and a supporter of the Front populaire, Boris began to read the *General Theory* in 1937. Boris was chosen by prime minister Leon Blum as the director of his cabinet at the Treasury during his second government in 1938. He introduced Blum and Pierre Mendès France to Keynes' ideas and also participated to the meetings of a small group of civil servants gathered around Gaston Cusin. Jean De Largentaye was a civil servant, "inspecteur des finances", serving at the Treasury from 1936 to 1939 under the authority of Jacques Rueff. De Largentaye read Keynes in English and went to London where he was a member of the Reform club. He was offered to translate the *General Theory* by Keynes himself who supervised his work with the help of Piero Sraffa (De Largentaye, 2017). Robert Marjolin was the assistant of Charles Rist at the Institut scientifique de recherches économiques et sociales in Paris. This position led him to meet the economists in London starting in 1934 (Rosanvallon, 1987) and become a member of the Reform Club like De Largentaye. In 1941, he published a doctoral dissertation on *Prices, Money and Production* which consisted mainly of an examination of Keynes ideas. Marjolin was also part of the "planers" movement. The first sign of an influence of Keynesian ideas on French politics appeared during the second government of Léon Blum in 1938. A bill was presented authorizing defense expenditures to face the threat represented by the Nazis. Pierre Mendès France (1984) recognized later that it

was partially inspired by Keynesian ideas. Multiplier effects were expected to increase production and employment. The text also indicated that savings were a pre-condition to finance public investment. But the bill was rejected and Blum resigned.

After 1945, Keynesianism became very influential among senior officers, civil servants or engineers working for public administrations. Robert Boyer (1983) refers to this informal group of individuals as French modernist Keynesians. François Fourquet (1980) has shown in his book on the history of national accounting and planning in France, how the ideas of Keynes and the discussions with James Meade and Richard Stone were important in the elaboration of the French accounting system. Bloch-Lainé, Marjolin, Nora, Gruson, Serisé, Lauré, Uri, Denizet, Delouvrier, Ardant are the names of these civil servants in institutions such as SEEF, INSEE, the Plan and the Commission on National Accounts. For Boyer (1983) a fundamentalist Keynesianism was influential among this group in the 1950s based on a razor edge vision of the growth process which called for structural reforms. This changed in the 1960s. In 1966, the first macroeconomic model was developed at the Treasury, incorporating a “Hansen-type” multiplier according to Boyer, assuming rigid wages and no financial sector. This was a step forward in the direction of a “restricted Keynesianism” closer to the American notion of fine-tuning. The model was used to examine short-term policies. Influential politicians of the fourth and early fifth republic were also instrumental in putting forward the Keynesian vision. Mendès France, Valéry Giscard d’Estaing and Michel Rocard played that role in various positions.

The teaching of Keynesian macroeconomics developed only late in the 1960s in Universities with the translation of Hansen’s *A Guide to Keynes* in 1967 and a textbook published by Lionel Stoleru. The first course on Keynes’ ideas was given at ENA, the National School of Administration created to train the higher civil servants, in 1946 (Rosanvallon, 1987: 40). But a number of economists discussed Keynes ideas after the War. Rosanvallon notes that the *Revue économique*, one of the two most important scientific journal in France, published a number of articles favorable to Keynes in 1945 and 1946 among which a paper by Hicks in French titled “The theory of Keynes after nine years”. François Perroux, an important figure in the after war, published a book in 1950 in which he proposed to generalize the *General Theory* to obtain a theory of growth. Arena (2000: 995) notes that his Keynesianism was superficial. But Perroux had also supervised the doctoral dissertation of Jean Domarchi on “The economic thought of John Maynard Keynes and his influence in England” presented in 1943. Alain Barrère, who became one of the most important Professors at the University of Paris in the 1960s and 1970s, published a book on *Economic Theory and the Keynesian Impulsion* in 1952. He also published an article in 1951 in which he compared the economics of Pigou and Keynes. Jacques Lecaillon (1950) discussed the stability of the full employment equilibrium. Pierre Massé (1951), an engineer, tried to clarify the ideas of Keynes in the language of the neo-marginalist approach. Marjolin (1941) and Gruson (1949) tried to extend the ideas of Keynes to the long run.

An important page in the history of Keynesianism in France is the development of disequilibrium theories (Backhouse and Boianovsky, 2013; De Vroey, 2016). This began essentially outside the French academia but it probably played a role in the process by which research and teachings in French universities caught up with the trend towards mathematization and the use of econometrics that began twenty years before in the United States. The most important figures in this episode were Yves Younes, Jean-Pascal Bénassy, Jean-Michel

Grandmont, Guy Laroque and Edmond Malinvaud. The main inspiration of these economists was not the *General Theory* but its disequilibrium interpretations by Don Patinkin (1956) and, more importantly, Robert Clower (1965, 1967) and Axel Leijonhufvud (1968). Patinkin introduced the idea that when the goods market is in excess supply and firms adjust their level of production to aggregate demand, this “spills over” on the labor market where labor demand may decrease even though the real wage is still at its full employment level. Clower considered the complementary case of an excess supply of labor leading workers to reduce their demand for goods below its desired level as a consequence the labor rationing. Robert Barro and Herschel Grossman (1971) combined these assumptions with the assumption of fixed prices to develop a three goods disequilibrium model with explicit microfoundations. The first contribution of the French economists was to try and reformulate the simple model of Barro and Grossman in the context of disaggregate general equilibrium models. Grandmont and Bénassy, both trained as mathematicians, the former at Ecole Polytechnique and the latter at the Ecole Normale Supérieure, did their PhDs at Berkeley under the supervision of Gérard Debreu. Grandmont (1970), translated in the language of modern general equilibrium theory the temporary equilibrium theory developed by Hicks in *Value and Capital*. He showed in particular that a monetary equilibrium may not exist in spite of the real balance effect, a result that could be read as a modern expression of the main claim of Keynes’ chapter 19. Bénassy (1973) developed an alternative concept of general equilibrium named K-equilibrium to account for the possibility of exchange out of the Walrasian equilibrium. Agents take account of additional “perceived constraint” on possible transactions to define their “effective demands”. Equilibrium is reached when effective demands reproduce themselves over time. Bénassy gave a central role to money and proposed to replace the auctioneer by an assumption of monopolistic competition to account for the determination of prices. Younes (1973) and Malinvaud and Younes (1974) developed yet another “non-Walrasian” concept of equilibrium on the basis of non-cooperative game theory. These economists also developed the simple model of Barro and Grossman. Bénassy did so in his PhD dissertation but the version that attracted most attention was proposed by Malinvaud. In 1977, Malinvaud published a little book titled *The Theory of Unemployment Reconsidered* showing how the three goods model led to three distinct regimes depending on the levels of prices and wages: Classical unemployment, Keynesian unemployment and repressed inflation. Malinvaud thought that the economic system would normally oscillate between Keynesian unemployment and repressed inflation due to the volatility of investment and technological progress. But an oil shock or an increased bargaining power on the part of workers could result in Classical unemployment. For him this was the key to understand the stagflation of the 1970s. Béraud (2017) shows that until 1986 Malinvaud’s essay was quoted as often as Robert Lucas 1976 paper on the critique of macroeconomic modelling. His model was extended in various directions at the end of the 1970s and in the first part of the 1980s: open-economy, dynamics of money balances and inventories, capital accumulation, expectations, plurality of goods, or price dynamics. But works in this line, mostly developed at CEPREMAP and University of Paris 1, began to slowdown in the second half of the 1980s. It is difficult to give a simple explanation for this but one problem faced by Malinvaud was that Classical unemployment proved difficult to find on the basis of empirical data. In the process, the group of researchers around Bénassy and Malinvaud had introduced a mathematical approach to macroeconomics in French universities. In the “neo-marginalist”

camp, the next stage was the introduction of New Keynesian ideas in the 1990s by a new generation of economists trained mostly at the University of Paris 1.

Alongside the works of Bénassy and Malinvaud, heterodox economists developed different readings of Keynes in France. Deleplace (1999: 471) puts them under the “circulation school” label. If Marjolin and Barrère insisted on the role of money in the theory of Keynes and on his particular theory of the rate of interest, the decisive impulse came from the book of Bernard Schmitt, *Money, Wages and Profits*, and from his latter works. Schmitt studied economics at Cambridge under the supervision of Robertson and Sraffa and entered the Centre National de la Recherche Scientifique (CNRS) in Paris in 1954. Schmitt criticized Patinkin’s version of Keynesianism and offered to provide alternative foundations to Keynes’ macroeconomics. Building on Keynes’ notion of a “finance motive”, Schmitt presents money as both an asset and a debt. It is created by commercial banks to finance firms and allows them to pay the wages. Production acquires a value only because of the payment granted to the factors of production. Money then allows households to buy goods from firms. Firms are eventually able to reimburse banks, whereby money is destroyed. This approach was related to the national accounts. Schmitt founded his own school in Dijon. But he also inspired economists like Cartelier and Benetti (1980) who insist on the problem of distribution in relation to the fact that not all agents had an equal access to money. Inspired by their reading of Marx, they see in the *General Theory* the assumption of an asymmetry between entrepreneurs and workers. Only the former control the level of production. Aglietta and Orléans (1982) were also inspired by this circulation approach. Aglietta (1995) has analyzed in particular the problems raised by the relation between the central bank and commercial bank in the process of money creation. The importance of commercial banks leads these economists to put a heavy emphasis on the contribution of Keynes in his *Treatise on Money*. This approach, to which the names of Parguez, Poulon and Renversez should also be associated, faltered after 2000. Around 2008, a renewed interest for Post-Keynesian mathematical models inspired by Kalecki, Minsky or Lavoie appeared in France. The Keynesian heterodoxy is still alive but it has largely abandoned the typically French traditions that developed around the 1970s.

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