A TRIBUTE TO AUGUSTO GRAZIANI

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It is difficult to write a "tribute" to Augusto Graziani, remembering his warning that writing the obituary of a University professor gives the person writing it a great opportunity to self-promote. This tribute is intended solely to provide scholars who are not familiar with his works an appraisal of his basic economic ideas[1].

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Augusto Graziani died in Naples on 5th January 2014. Born in Naples in 1933, he graduated with Giuseppe Di Nardi in 1955 and then studied at the London School of Economics and at Harvard. In this period, he met, among others, Lionel Robbins, Wassili Leontief and Paul Rosentein-Rodan, and was profoundly influenced by their thought. Graziani was professor of Economics and Economic Policy, first at the "Federico II" University of Naples and then at Rome's "La Sapienza". Among his institutional responsibilities, it is to be remembered that – in the 1990s - he was President of the Italian Economic Society and member of the Left-Democratic Party in the Italian Senate. He was undoubtedly a great "heterodox" economist who made highly relevant contributions in the fields of monetary economics and the development of the Italian economy. He had an extraordinary capacity to make his theoretical reflections quite clear even to non-economists, and the numerous articles published in Italian newspapers testify this. He managed to combine an extraordinary clarity in writing and speaking with an uncommon logical rigour. No wonder his micro and macroeconomic texbooks (Graziani, 1992; 1993) were widely used in Italian Universities in the period when they were not yet dominated by mainstream economics. Graziani is also to be remembered as an open-minded man, always ready to help his (many) pupils in their research.

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As far as the first line of research is concerned, he is considered the "founder" of the so-called monetary circuit approach, or monetary theory of production (MTP)[2]. Schematically, the MTP describes the functioning of a sequential economy which involves three macro-agents: banks, firms and workers. The banking system creates money *ex nihilo*, in accordance with the idea that loans make deposits; firms advance the money wage bill and produce commodities; workers supply labour power. The circular process of the monetary economy starts with bargaining in the money market between banks and firms. Banks supply firms with initial finance; firms need money in order to pay workers and to start production. For a given bargained money wage, they advance the money wage bill. After the production process has taken place the price level is determined so real wages are known ex-post. Income distribution among banks, firms and workers does not reflect the marginalist rules, depending on the relative market power and socio-political clout of the agents. The monetary circuit closes with the repayment of the initial finance to banks – the so-called "destruction of money" (see Graziani, 1994; 2003).

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[1] A detailed interpretation of his thought has recently been provided by Bellofiore (2012).

[2] The monetary circuit approach, although in a version different from that proposed by Graziani, was also developed under the lead of Bernard Schmitt, in the late 1960s, in France (Dijon) and Switzerland (Fribourg). It is known as "the theory of money emissions" and later on also labeled the "quantum theory of money and production" or "Dijon School".

Graziani's research project consisted of posing a theoretical nexus between Keynes's *Treatise on Money* and Marx, in the belief that Keynes's most accurate description of the working of a monetary economy can be found in this work, while the *General Theory* focuses on the "special case" of mass unemployment and crises (cf. Graziani, 1984). He focused on Keynes's short article entitled "A Monetary Theory of Production" (published in *Essay in honor of Arthur Spiethoff*, 1933), which, as we know, was also the title he gave to his lectures at the time. In this work, Keynes stressed that the "classical" economic theory of exchange was the picture of the working of a barter economy and proposed a monetary theory of production, assuming that it is impossible to analyze the dynamics of a capitalist system without explicitly considering its monetary and financial aspects (Graziani, 1988; 1996). The theoretical nexus – in the field of monetary theory – between Marx and Keynes appears clear to Graziani. In his analysis of Keynes's paper on the "Monetary Theory of Production", he (1984, pp.4-5) established that for Keynes, too, the condition for capitalist reproduction in monetary terms is encapsulated in the Marxian sequence *M-C-M'* (cf. also Graziani, 1987a, 1987b).

Graziani's defence of the thought of Marx and Keynes did not lead him to criticise the Neoclassical General Equilibrium Model from the standpoint of its internal consistency: he maintains that the Neoclassical approach is fully consistent, and that criticism of this approach can only be "external" criticism devoted to emphasising the lack of realism of its assumptions. Being confident of the force of persuasion (Graziani, 1988), Graziani stressed that the dynamics of contemporary capitalism cannot be interpreted without expliclty considering the crucial role of conflicting interests among social groups and power relations. In so doing, he basically maintained that the acceptance of methodological individualism and consumer sovereignty were the main fallacies of the Neoclassical view (Graziani, 1965). By contrast, he stressed that contemporary capitalism is characterized by an increasing power – on the part of capitalists – to fix the scale and composition of output (Graziani, 1994; 2003).

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As regards his studies on the development of the Italian economy, his attention was drawn to Italian dualism. He was involved in this topic during his work with Manlio Rossi Doria at the *Centro di Specializzazione e Ricerche di Portici.* Graziani stressed that the underdevelopment of Southern Italy (and the existence of a large underground economy in that area) was functional to the growth of profits for firms located in Northern Italy, and that market forces tend spontaneously to widen interregional disparities (Graziani, 1969; 2000 [1998]). Using similar arguments, Graziani was also critical towards the process of European integration (Graziani, 2000; 2004). As far as Italy was concerned, he observed that monetary unification would inevitably push the Government to implement restrictive fiscal policies, in order to allow Italian firms to gain competitiveness via wage cutting (not being able – due above all to their small size – to compete via innovations), in an Institutional context where they cannot increase their competitiveness via the devaluation of the exchange rate. Graziani was also skeptical of the (still) dominant view that the high Italian public debt was due to high public expenditure. By contrast, he emphasised that the primary problem of the Italian economy was equilibrating its balance of payments, and that, in a context of growing deficit in the trade balance, this goal was achieved by increasing the interest rates on State bonds to attract capital flows.

Graziani's theories are now the focus of renewed interest, both with reference to his analysis of the dynamics of the Italian economy and his monetary theory. However, as the latter is an "open schema" based on a revisiting of Marx's and Keynes's thought (with reference also to Wicksell and Schumpeter), it is difficult to trace a real "circuit school of thought".

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