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Yours Sincerely,

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# Divided by an Uncommon Language? The Oxford Institute of Statistics and British Academia (1935–1944)

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## Abstract

The abstract is published online only. If you did not include a short abstract for the online version when you submitted the manuscript, the first paragraph or the first 10 lines of the chapter will be displayed here. If possible, please provide us with an informative abstract.

From October 1935 to 1944, the research agenda implemented by the Oxford Institute of Statistics diverged from the lines of research of both Cambridge and the Oxford Economic Research Group. Rather than following the Marshallian tradition, the OIS staff assumed a continental scheme of thought, influenced by Marx, Walras and the "Kiel School," thus focusing on business cycles and the role played by capitalist institutions. Thanks to the funding provided by the Rockefeller Foundation, the Institute became an atypical research centre within the British academia. On the one hand, its members rejected Marshall's equilibrium theory for its staticity. On the other hand, they were also sceptical about Keynesian theory for its scarce attention to institutions. Therefore, an uncommon language inescapably divided them from British academia.

## 1. Introduction

From October 1935 to 1944, due to the rise of Nazism, the Oxford Institute of Statistics (OIS) turned into a "sanctuary" for anti-nazi economists. Since its foundation, with J. Marschak as the director, émigré economists from central Europe—such as F. Burchardt, K. Mandelbaum, E.F. Schumacher, T. Balogh and M. Kalecki[1]—dominated the research staff of the OIS (Hagemann 2005, 2007, 2011).

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Such emigration inescapably led to fertile discussions about the research agenda to be implemented, since the economists grouped in the OIS did not share the same background as the British colleagues. Rather than following the Marshallian tradition (which was hegemonic, in its different versions, both in Cambridge and in Oxford) the OIS staff assumed a different scheme of thought. In line with the continental tradition, they were influenced by Marx, Walras and the Austrians and also by the German "Kiel School," a research centre funded by the Rockefeller Foundation focused on empirical investigation and trade cycles. Accordingly, they promoted the use of statistics in social studies, assuming that business cycles and economic fluctuations were the most relevant research topics to be investigated, especially after 1929 breakdown.

In a short lapse of time, the non-aligned features of OIS's economic staff (when compared to the British tradition) became evident both from a methodological and a theoretical point of view. In a sense, one may legitimately state that between 1935 and 1944 the economists' circle was divided between a (mostly) Continental Oxford and a Marshallian—that eventually turned into "Keynesian"—Cambridge.

From this perspective, the Oxford Institute of Statistics certainly became an atypical research centre within the English academia.

Furthermore, such a different background influenced the political stances of several members of the OIS. Because of the shock represented by the rise of Nazism, economic cooperation and European integration became two prior issues. In particular, a reform of the international institutions in the post-war world was considered inescapable in order to moderate trade imbalances, fierce competition and antagonism between countries, which had led to the tragedies of Nazism and WWII in the OIS members' eyes.

Given this premise, the aim of the chapter is to re-read some of the works published by the OIS's leading economists (Marschak and Burchardt, who acted as directors) in the examined period, interpreting them as a challenge to the pre-existing paradigms, especially Cambridge's tradition. In this sense, we are going to put particular emphasis on the role of the economists and their economic and political ideas, also with regard to European integration and economic cooperation.

Accordingly, this chapter aims first to re-examine the early period of the OIS

(1935–1939) from our specific angle, recovering Marschak's article on "Peace Economics" (Sect. 2). In light of this premise, in Sect. 3 we emphasize the crucial role played by F. Burchardt, as director of both the *Oxford Bulletin* and the 1944 collective book on "The Economics of Full Employment." Finally, in Sect. 4, we draw some conclusions about the relationship between the OIS and the pre-existing Schools of economics in the United Kingdom, particularly Keynesian theory.

## 2. Beginnings: The Birth of OIS Under Marschak's Direction (1935–1939)

The birth of OIS is strictly connected to the strong financial support provided by the Rockefeller Foundation. However, such a support depended also on the German background of the economists grouped around the OIS.

In fact, since the mid-1920s, the Foundation had financed several European institutions, whose research was interdisciplinary and focused on the development of empirical methods of investigation. For instance, between 1924 and the early 1930s, London School of Economics became a major beneficiary due to its commitment for the "collection and examination of facts" (Craver 1986, 208). On the other hand, the faculty of economics of Cambridge received no funds at all, since it looked "satisfied with being an isolated university (…) little interested in social side but only in financial analysis" (*Ibidem*) to the foundation's officials eyes.

Along these lines, after 1929 breakdown, the Rockefeller Foundation showed an increasing interest in finding the ultimate causes of cyclical fluctuations, in order to foster a rapid recovery of capitalist economies. Accordingly, they shifted their attention to the German academia, particularly the Kiel *Institut für Weltwirtschaft*, whose specialism was the collection and study of empirical data in order to provide a thorough interpretation of the business cycle. From this perspective, the research done in Kiel was certainly "the kind of work, done by the kind of economists, that directors of the foundation most wished to support and encourage" in those days (Craver 1986, 216), as evidenced by the generous 106,000 USD donations, between 1931 and 1933.

Unfortunately, the rise of Nazism forced almost all the economists in Kiel to flee abroad, since they were mostly socialist and Jewish. Such event triggered the reaction of several outstanding economists who appealed the Rockefeller Foundation for help. The letters of Sir William Beveridge, Josef Schumpeter, Wesley Clair Mitchell, Alva and Gunnar Myrdal eventually convinced the Foundation's officials to interrupt their funding to the Kiel Institute. At the same time, the existing funding was redirected to the OIS in Oxford (Craver 1986), which subsequently became a sanctuary for émigrés economists.

It is important to stress, however, that the foundation's grant was not subject to conditionalities, since the only request was that the studies to be developed in Oxford should have been related to the problems of modern society (Young and Lee 1993). Accordingly, in October 1935, Marschak was free to organize the Institute with his German background in mind. For instance, already on September 26, 1936, the OIS hosted the meeting of the Econometric Society (Hagemann 2005). Rather than a convergence with the other lines of research pre-existing in Oxford, such academic freedom, together with the different background, inescapably determined an increasing detachment from the rest of the economic research groups, particularly about methodological assumptions and political implications of economic theorizing.

## 2.1. Marschak's View About the Scope and Method of Economics and the Oxford Milieu

On September, 1939 Marschak left the OIS. Soon after, he was appointed Professor of Economics at the New School in New York. A few months later, in a short article, he explained his methodological assumptions together with his broader beliefs about the scope and method of economics. Such a work becomes a crucial source in order to retrospectively interpret his differences with the Oxford milieu.

In Marschak's view, it is pointless to interpret induction and deduction as alternative methods in economics. Economists should simply assume that both induction and deduction are necessary and, therefore, statistics must complement economic analysis:

Methodology may talk of induction and deduction; but it should itself work as an inductive science, should build on experience. For example: to state a priori that economics can never become quantitative is as invalid as the older statement a priori that men will never fly because flying is against man's nature. (Marschak 1941, 441)

A great part of the controversy between the economists may be labelled instead as "causal vs. stochastic". According to Marschak, two competing visions characterize economics: one strictly based on the existence of mechanical relationships and another focused around the concept of probability. However, a synthesis becomes possible once we assume that "*systematic relationships are, in any case, overlaid by random disturbances and can be observed only as statistical averages*" (Marschak 1941, 443). The solution is therefore represented by "modern" business cycle theories, like Tinbergen's, since they are able to explain observed regularities of more complex phenomena (e.g. prices, output) in terms of elementary relationships (446). In other words, only abandoning static equilibrium analysis economists can become genuine "social engineers" rather than false "prophets" (448).

If, vice versa, economics had stuck to the traditional equilibrium theories it would have rapidly turned into the "*pseudo-science of inevitable*" (Marschak 1940, 280), studied by "*not trade cycle minded*" men, who can conceive fluctuations, recessions or unemployment only as outliers.

From this perspective, Marschak certainly brought the continental tradition with him while directing the OIS (Cherrier 2010), using both economic theory and statistics to characterize regularities in the data (Mehrling 2010).

In light of this premise, it is possible to understand Marschak tortuous relationship with the Oxford milieu.

Besides the OIS *émigrés*, in those days several important economists (such as Meade, Phelps Brown and, above all, Roy Harrod) were grouped around the Oxford Economic Research Group (OERG).

In H.D. Henderson's intention, the OIS should have complemented and supported the OERG agenda providing statistical evidences, since this latter area should have investigated capital market in connection with trade fluctuations (Young and Lee 1993). However, the collaboration between the research groups was definitely scarce.

No work published by the OERG dealt with economic fluctuations during the period examined (Besomi 1998). In change, OERG was committed to the study of the role played by entrepreneurial expectations. Drawing on Keynes's *General Theory*, OERG researchers aimed at providing an empirical verification of the factors determining the trend of economic activity. Therefore, their main activity was recollecting interviews of businessmen, in order to try to test Keynes' hypothesis about the irrelevance of the variations of the rate of interest for the investment decisions.

Roy Harrod repeatedly manifested a genuine interest in business cycle theories. However, his methodological assumptions deeply diverged from Marschak's, being a generalization of the Marshallian and Keynesian approach (Besomi 2010).

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Marschak was aware of such discrepancies; however, he was optimistic about the possibility of deepening the intellectual exchange with Harrod:

Harrod…, although not seriously engaged himself in empirical research (except as a member of the 'Economists Research Group' which interprets the 'behaviour of entre-preneurs') [holds] methodological views… such as to favour the type of work pursued hitherto by the Institute. (Marschak 1939, cited in Besomi 1998, 560)

Unfortunately, Marschak's optimism had already proved to be unjustified. During August and September 1938, Harrod discussed a first draft of his "Essay in Dynamic Theory" with Marschak.

As evidenced by Sember (2010), Harrod deliberately ignored Marschak's remarks on his draft because he was unable to fully understand them. In light of their conflicting approaches to business cycle theory, on the one hand, Marschak interpreted Harrod's work as a dynamic model, in which oscillations were around equilibrium. Such interpretation was in line with the continental tradition in business cycle theory, represented, in those days, by Frisch, Tinbergen and Kalecki. On the other hand, Harrod thought at dynamics in terms of different as well as consequential stages, since he was deeply influenced by the Keynesian theory rather than the continental debates. As a result, Harrod overlooked Marskak's remarks as if an uncommon language divided them.

From our perspective, such dialogue of the deaf denotes a broader lack of interplay between the OIS and the other research bodies in Oxford. On the other hand, the astonishing and non-concluding conclusion of the correspondence between Harrod and Marschak reinforces the idea that the OIS economists belonged to a continental tradition, relatively obscure within the British academia.

## 2.2. Marschak's Political Stances: A Restricted Minimalist

## Integration for the Post-war World

Marshak's emphasis on business cycle is well reflected also by his political stances, expressed in a 1940 article on "Peace Economics."

Broadly speaking, the paper puts in perspective (and goes beyond) Keynes well-known book on the economic consequences of peace. It also reflects Marschak's different political background, when compared to both Oxford's and Cambridge's intellectual milieu.

Marschak was a social democrat who had been the Minister of Labour of the short-lived Menshevik Republic of Terek. After the defeat of the Anti-Bolshevik movement in the Russian Civil War, he fled abroad; however, he still manifested a strong interest in politics, which brought him to study the rise of Fascism in Italy. In his analysis, dated 1923, the only reasonable way of avoiding similar aberrations was represented by dampening the international business cycle by means of active policies. Since Fascism was the result of economic uncertainty and unemployment resulting from the post WWI scenario, only improving human organization and international cooperation a similar catastrophe might have been prevented (Cherrier 2010).

Along these lines, Marschak 1940 article explicitly assumed that the rise of Nazism relied upon economic crisis and mass unemployment. In his view, German people exchanged freedom for economic security, considering that regimentation was the only viable solution to their severe economic problems.

Differently from Keynes, however, Marschak puts in perspective the role played by the Versailles treaty. If it is undeniable that such international agreement negatively affected German economy, it is also true that during the years of growth Germans did not manifest any sympathy for Hitler and the Nazis and seemed not to care at all about the "dishonour" of Versailles treaty:

I inquired recently among my German colleagues (in exile, but capable, I think, of unbiased recollection). They all confirmed my own impressions of 1926-28: in those years of prosperity few Germans really worried about Versailles. The curve of the electoral successes of the National Socialists closely coincided with the fluctuations of unemployment. Of the items of Versailles, the reparations clause was the only one which prevailed in the public mindfar above all others: not disarmament, not the paragraphs concerning "honor," not even the change of frontiers, apart only from the regions on the country's periphery economically hurt by the painful dislocations of markets and the necessity of adjustment which the new frontiers involved in a protectionist Europe. (Marschak 1940, 282–83)

Rather than blaming Versailles, Marschak emphasizes the disastrous role played by U.S. and British economic policies on the German balance of payments between 1930 and 1932. It is exactly because of such policies that the German government had to implement a brutal fiscal adjustment, which eventually led to deflation and, therefore, the Nazi success:

How differently would the economics of Brüning's Germany (1930-32) have developed if Germany could have embarked on a public works program without fearing for her balance of payments! That would have been the case if the United States or England had shown signs of a similar policy. Instead, the European balances of payment collapsed because of the withdrawal of American credits, and England devalued the pound. This induced Brüning's deflation (…). (Marschak 1940, 297)

In other words, yet in 1940 Marschak's biggest concern became how to mitigate the effects of international business cycle on the balance of payments, in order to guarantee economic prosperity and good level of employment to all the countries.

From this perspective, he was persuaded that the most effective antidote to Nazi regimentation was cooperation between nations, meant as a tool of avoiding *beggar thy neighbour* policies resulting from fierce economic competition.

Stated succinctly, peace depended on the right economic policies. In turn, in order to be "right", economic policies had to guarantee three results: the disappearance of idle resources; the optimal allocation of such resources and the development of the resources through time. However, in order to satisfy these conditions, several obstacles had to be removed.

In the first place, Marschak blamed protectionism, which he defined as the measure calculated to help one country at the expense of others. Protectionism was an outstanding example of *"sauve qui peut"* policy, which triggered trade wars and eventually affected also the country that originally implemented it.

In place of protectionism, Marschak proposes a mix of policies aimed at guaranteeing what he defines "collective security"; however, he emphasizes that such policies should not be implemented in the name of an alleged collective interest. Quite the contrary, they should be accepted for considerations of coldest "*sacro egoismo*" that is for utilitarian and selfish reasons.

Secondly, Marschak emphasizes that the German case shows that wage deflation is one of the most pernicious policies in political terms. This notwithstanding, a country may be forced to cut wage rates if the other countries do not implement similar policies for reasons of competitiveness. Therefore, the solution is represented by the concerted implementation of anti-cyclical policies: deflationary policies in times of boom and expansionary policies in times of slump.

Thirdly, Marschak points the finger at currency speculation, suggesting the creation of an international equalization fund which acts resolutely in order to prevent devaluations in response to unemployment. He stresses that this is not a plea for fixed exchange rates or a single currency regime, since in his mind national currencies should be revised by international agreements from time to time in order to correct external imbalances.

Finally, Marschak deals with the institutional framework necessary to guarantee a durable economic prosperity, which in his view necessarily implies a durable peace.

He seems to be sceptical about multilateralism and a comprehensive European integration. In particular, Marschak explicitly states not only that a world conference would be an unnecessary complication, but also that it would be better if the most important economies set the new rules of the game, implicitly imposing them to the rest of the countries. In a similar way, he suggests to create a limited number of international institutions since, in a strict sense, only an International Equalization Fund would be necessary for the tasks of peace and prosperity:

For the international handling of booms, depressions and money, no comprehensive "world economic conferences" are really needed. If three or four economically leading countries make the necessary agreements and keep them, if, in addition, they set up institutions (such as the International Equalization Fund and, less important, an International Public Works Board or a Bank for International Credits), and if they give the other countries the right to join, half of the task is done, even if the other countries do not join.

(Marschak 1940, 296–97)

Marschak's "minimalist proposal" is a further indication of his detachment from the British political and intellectual milieu.

# 3. 1940–1945 Burchardt's Nouvelle Vague and the Bulletin

On August 1938, Marschak left the OIS to join the New School of Social Research in New York. He was shortly replaced by H. E. Caustin. However, already in February 1940 Caustin left the direction to join the Civil Service: A. L. Bowley was appointed director until December 1944. The change in the direction of the Institute also implied a reassessment of the research agenda to be implemented. From this perspective, Bowley faced a major issue since, because of the war, almost all the English members of the Institute had moved to Civil Service. Accordingly, the *émigré* economists nearly represented the whole research staff of the department. The mission then became observing the impact of the war on the economies of the countries involved.

## 3.1. Burchardt Remarks to Keynesian Theory

Notwithstanding the aforementioned appointment of Bowley as director of the OIS, in 1940 two important facts took place, changing the orientation of the Institute's research focus. The University authorities had decided to establish a diary of statistical information in November 1939. Such publication expanded in October 1940, becoming the well-known *Bulletin of the Oxford University Institute of Economics and Statistics*.[2] On June 1940, Burchardt, who was formerly hired as a librarian, was appointed editor of the Bulletin. At first sight, this fact may seem as a normal bureaucratic procedure of no particular importance. However, it played a pivotal influence on the Institute's agenda. Notwithstanding Bowley was no mere figurehead, as he showed a remarkable interest in the work of the younger colleagues coming from central Europe, he was only able to be in Oxford part-time because of personal reasons. Accordingly, the effective day-to-day running of the institute was carried out by Burchardt, who acted as a *de facto* director (Worswick 1959).

Under the guidance of Burchardt the mission of the Institute became to study the transition period, that is the risks and the implications of the transition from war economies to peace. Such a topic reflected Burchardt's background, since he was trained in the Kiel School. As we explained in the previous section, the Kiel School was a centre in political economy with equal emphasis on theoretical and empirical research. During his training as a young researcher, Burchardt studied in-depth philosophy and sociology, in addition to economics. His dissertation dealt with Joseph Schumpeter: Burchardt tried to merge a historical concept of the stationary state with a formal model of fluctuations. Such a choice reflected Burchardt's belief that economic processes have to incorporate both the *value* and the *physical* dimension. Along these lines, Burchardt was unsatisfied with both Cambridge and Lausanne schools (Lowe 1959), since the task of political economy should have been providing a non-monetary theory of business cycle, able to grasp the unstable and anarchic dynamics of capitalism, as well as the constraining role played by technical progress and institutions (Hagemann 1997). From this angle Burchardt was influenced by the works of Quesnay, Marx and Bohm-Bawerk. In particular, a synthesis between the two latter was at the origin of his theory of production, which represented a pioneer work in the tradition of the vertical integration approach (Hagemann 1997). In other words, Burchardt adhered to a continental tradition that assumed that market forces alone couldn't ensure human and progressive social outcomes, and, therefore he manifested a strong confidence in State intervention. He was also conscious of the limitations of orthodox theory; nevertheless he focused on extending the limitations of neoclassical economics, particularly in light of Marxian theory, rather than embracing the Keynesian revolution. While acknowledging the importance of the *General Theory*, Burchardt and the economists coming from the Kiel School assumed a different methodology, in which historical and institutional enquiry still represented the inescapable point of departure of economic analysis (Mongiovi 2005).

After Burchardt guidance, the different lines of research existing in the institute merged into a book dated 1944 and edited by him: *The Economics of Full Employment* (Burchardt 1944), which intended to identify the strategic factors of a policy of permanent full employment in industrial nations. Besides Burchardt himself, the contributors were Germany's Kurt Mandelbaum (later Martin), and Ernst F. Schumacher, the Hungarian Thomas Balogh, the Polish Michael Kalecki[3] and David Worswick.

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Since the foreword of the book, Burchardt puts the accent on the limitations of the British debate around full employment. On the one hand, there was a widespread consensus about the necessity of implementing active policies in the labour market (well exemplified by the *White Paper on Employment Policy*). On the other hand, the institutional constraint over full employment played by capitalist institutions was completely overlooked. Therefore, the book aimed at filling this gap focusing not only on the technical tools necessary to reach full employment but also on the institutional and governance reforms necessary to maintain a stable full employment in a market economy.

Burchardt emphasizes one missing element of the British debate (triggered by the publication of Keynes book), i.e. that there are several ways to reach full employment, and to each one of them corresponds a “different distribution of incomes, a different standard of welfare and a different structure of industry and foreign trade” (Burchardt 1944, iii).

Digging holes in the ground and filling them up again will, as Lord Keynes has put it, produce full employment, and so will the pyramiding of armaments or of industrial equipment. (…) But by choosing useful public works, by subsidizing mass consumption, or by redistributing incomes, employment can be pushed to the same level and, at the same time, the standard of living of the community as a whole be raised higher than by digging useless holes. (Burchardt 1944, iii–iv)

Subsequently in the first chapter of the book, Burchardt deals with the different theoretical explanations of unemployment.

Burchardt asks himself why the belief that there is always a wage level which provides full employment dies so hard. This belief implies that wage reductions can achieve the goal of eliminating excess labour supply. However, contemporary contributions (such as Keynes’ book) had shown the fallacy of such a theoretical assumption. Nevertheless, most of economic theorists and businessmen enthusiastically adhere to such a view. In order to outline an explanation, Burchardt rejects the traditional arguments raised by critical or non-orthodox economists. In his view, the real issue has nothing to do with economic analysis; rather it can be explained studying the social background and the ideological stances behind the price flexibility mechanism.

In Burchardt’s view there are three ideological stances that stand behind the traditional theory of unemployment. Firstly, business men usually share the fallacious belief that what is good for the individual enterprise is good for the whole community. Accordingly, they assume that if they impose a reduction of wages in their own firm they are going to get a competitive advantage by means of which they will expand their market share at lower prices. Burchardt stresses that as soon as the other entrepreneurs stick to the same pattern, not only the initial advantage disappears, but the whole market contracts due to the sharp fall in aggregate demand. Therefore, the economic welfare of the whole community is affected by the decisions of a single entrepreneur pursuing his own interest at the expense of the other employers. Second, there is the argument relying on the traditional theory of international trade and exchange. In this case, in a system of fixed exchange rates, when a country tries to adjust its external imbalances by means of deflationary policies, in order to restore competitiveness, it does so at the expense of foreign producers. Like in the previous case, the selfish bias of a country will lead to a reaction of the other countries, which will also shrink their wages. Also in this case, the overall effect will be a generalization of deflation and unemployment across countries. Flexible exchange rates, on the contrary, together with trade controls, provide instruments to regulate the foreign balance by appropriate currency and trade policies. Third, a deeper and underlying ideological bias against state intervention relies on the belief in the beneficial nature of the automatism of the market process. Along the years, such a prejudice had survived several adverse empirical evidences, being modified accordingly. In turn, such ideological stance reflected a widespread fear among the businessmen: the fear of State interventionism. More precisely, entrepreneurs feared that the State will use its powers to favour certain social groups, that the State will not adhere to the traditional codes of conduct of the private business community or that State power will be used for political purposes.

In other words, Burchardt states that traditional theory is a rationalization of political prejudices and ancestral fears. Therefore, the critique of orthodox theory cannot merely rely on logical and analytical arguments.

Not coincidentally, Burchardt puts forward a reproach also to the contemporary theories of business cycle. On the one hand, he does not deny that trade cycle theory represented an important critique to traditional economic equilibrium theories, since they explicitly assumed the existence of instability and fluctuations in capitalist economies. On the other hand, these theorists shared also an ideological bias with traditional theory, since they assumed that instability and fluctuations are “natural” and therefore that they represent the price that a country has to pay in order to grow. In some cases they even emphasized that slumps and “destruction” of branches of the economy are good for the task of developing. In Burchardt’s view such a posture is rather unjustified, since it assumes institutions as an exogenous variable:

> The pattern of the cycle was partly conceived as something unavoidable, imposed by natural, uncontrollable conditions, which could not and should not be interfered with. (…) The resulting business cycle is beyond human control and (…) there is nothing to do but submit to it. (…) Adherents to this view –and there are many among economists, administrators and business men –point out that depressions are necessary to eliminate the excesses of the boom. (Burchardt 1944, 22)

In our view, Burchardt’s distance from both orthodox traditional and business cycle theories is a further example of the singularity of the OIS within the British academia. While recognizing the important advancement contained in Keynes’ book as well as the new trade cycle theories, Burchardt is clearly drawing on a different intellectual tradition.

## 3.2. Balogh and the International Post-war Integration

A similar stance characterizes also a chapter of the book edited by Burchardt written by Thomas Balogh on the international aspects of full employment. Thomas Balogh was a Budapest-born economist who studied in the Universities of Budapest and Berlin. Before immigrating to England, he worked in the Reichsbank, in the Banque the France and in the Federal Reserve. He had been in England since 1932, first working (thanks to J.M. Keynes) for O.T. Falk & Co in the City of London, then as a lecturer at University College London 1934–1940, before becoming a lecturer at Balliol College Oxford; he was naturalized as a British subject in 1938.

His contribution to Burchardt’s book dealt in particular with the problem of economic and political integration. Broadly speaking Balogh shared Burchardt’s view on Keynesian theory, since his contribution can be interpreted as a development of Keynes’ Bretton Woods proposals motivated by the latter’s deficiencies.

Balogh’s point of departure is the functioning of international monetary system. Given the unequal level of development of different countries, an uneven distribution of international reserves becomes a structural element of capitalism. Such issue has got important implications. If we assume an even distribution of international reserves, the mere appearance of external imbalances does not necessarily lead to deflation and fiscal adjustment. In fact, a country running an external deficit may legitimately choose to use part of its international reserves in order to implement expansionary policies. However, such assumption would be definitely unrealistic given the features of the international monetary system. Consequently, a deflationary bias is imparted to the whole world economy. In case of external imbalances, any country will immediately aim at reducing the level of imports and increasing exports. Therefore, depreciation of currency and domestic deflationary policies become the tools that any country uses in event of external imbalances. In other words, beggar thy neighbour policies become the ordinary instruments to address the problem of international trade.

In light of this premise, a reform of international institutions becomes inescapable. In Balogh's eyes, multilateralism is the only reasonable answer to the permanent tensions produced by international transactions. According to Balogh, the aforementioned problem can be solved, by international agreements, in two alternative ways. The first way is the implementation of a scheme that would allow any of the participating countries to apply expansionary policies irrespectively of their consequences on the balance of payments. This approach, which Balogh calls the liquidity approach, implies the creation of some kind of international means of payment to restore the liquidity of the country in question. The other possible solution, which Balogh calls the equilibrium approach, consists in creating additional effective demand and divert them from the surplus countries, or to impose to the surplus countries measure oriented to eliminate such a surplus (for example, devaluation of the currency).

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It should be noticed, however, that Balogh shifts away from Keynes' contemporary proposals. He compares the liquidity approach with Keynes' proposal for an International Clearing Union concluding that this latter relies on an automatism that cannot be taken for granted, i.e. that an increased volume of money will automatically transform into additional effective demand. Quite the contrary, Balogh stresses that it is necessary to introduce an international body, which acts resolutely in order to ensure that the newly created liquidity turns into additional effective demand.

Lord Keynes' high hopes for his multilateral clearing scheme seem to be

> based on a (…) misapprehension (…). This misapprehension amounts to equating the volume of money with demand. (…) On the international plane there must exist an 'outside' (supernational) body which creates new international cash whenever international effective demand flags, and this body must induce a country or a group of countries to use this newly created cash and thus convert it into effective demand. *The automatism postulated by Lord Keynes is non-existent*. (Balogh 1944, 159–60 fn. 1, emphasis added)

Finally, Balogh addresses the question of regional integration. In his view, worldwide multilateralism would be the best choice in order to guarantee a sustainable and prolonged economic growth. However, he is also aware of the difficulties arising from the attempts to implement such a worldwide reform. An alternative solution would be the constitution of regional blocks whose functioning must mimic the rules of a worldwide-integrated system. More precisely, any regional block should possess its own Monetary Fund and Investment Board. Members of the full employment block must commit to a common economic policy that cannot be changed without agreement of the other members. Special emphasis is put on the control of capital movements, be it intra-block movements or movements between the full employment block and outside unstable areas. The theoretical defence of free capital movements is based on the fallacious belief that capitalists will choose to invest in areas were returns are the highest, finally determining the convergence of the economies. Quite the contrary, returns on capital largely depend on other factors such as the degree of monopoly of a country which determines a permanent imbalance in the international capital flows.

In short, we can affirm that also with regard to the political aspects of economic integration, Balogh's chapter is a further example of the non-aligned features of the OIS, particularly in light of his critique to Keynes proposal which embodied the official posture of the British government to be discussed at Bretton Woods.

## 4. Concluding Remarks

The discourse developed in this chapter highlights the non-aligned features of the Oxford Institute of Statistics economic staff when compared to the contemporary British tradition. Such a difference is evident from both a methodological and a theoretical point of view.

Since the Institute's foundation in October 1935, the high degree of academic freedom, resulting from the external funding provided by the Rockefeller Foundation, which aimed at promoting the analysis of business cycles, inescapably determined an increasing detachment from the rest of the economic research groups in Oxford. In this early period, Marschak's correspondence with Roy Harrod probably represents the most outstanding example of such a dialogue of the deaf, reinforcing the idea of a scarce interplay between the OIS and the other research bodies in Oxford.

On the other hand, when Burchardt substituted Marschak as a *de facto* director in 1940, the Institute's critique to both orthodox and business cycle theories represented another example of the singularity of the OIS within the British academia. In addition, while recognizing the advancement contained in Keynes's book, Burchardt and the OIS staff moved important critiques to Keynesian theory. Given Burchardt's belief that economic analysis had to incorporate both a value and a physical dimension, the task of political economy should have been capturing the unstable and anarchic dynamics of capitalism as well as the constraining role played by its institutions. From this particular angle, Burchardt's critique to Keynes seems to be motivated by this latter's oversimplified description of the economic role played by capitalist institutions over the economic process.

Stated succinctly, in Burchardt's view, Keynesian theory could become a consistent alternative paradigm only on condition to amend it with the continental and Marxian tradition.

Also on a political plan, we can affirm that the OIS had an autonomous research agenda. As evidenced by Balogh's work, contained in Burchardt's 1944 book, a reform of international institutions becomes inescapable in order to sustain full employment policies. However, he stressed that multilateralism should be preferred to regionalism since it allowed to develop the international division of labour to its maximum possible degree. Accordingly, Keynes' proposal for an International Clearing Union grasped an important element of the discussion on the post-war world. Nevertheless, such proposal was also criticized by Balogh for his naïve idea that international balance of payments adjustments could be solved merely by increasing international liquidity, which implied the belief of an automatic relationship between volume of cash and effective demand.

In a sketch, we can affirm that between 1935 and 1944 the Oxford Institute of Statistics certainly represented an atypical research centre within the academia of the United Kingdom. No relevant collaboration can be observed between the Institute's researchers and their British colleagues, even when their research agenda had strong similarities. In a sense, one may even conclude that an uncommon language inescapably divided them.

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[1] Actually, T. Balogh had moved to England in 1932, the anti-Jewish laws introduced in Hungary by the regime of Miklós Horthy essentially motivated his emigration.

[2] The bulletin is still published under the name of *Oxford Bulletin of Economics and Statistics.*

[3] Kalecki’s contribution to the OIS research agenda is the object of a parallel work, see Lampa (2017).