Luigi Einaudi: fifty years after his death

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1. Premise

Luigi Einaudi (1874-1961) was a distinguished statesman, a fine economist, a prolific author and a great lover of books.[1] His brilliant political career culminated as President of the Republic, after service as Governor of the Bank of Italy during the difficult postwar years. He was a professor of finance and a prolific writer, with a special bent for studies of taxation, having perhaps imbibed the subject at home (his father was the tax concessionary in his home town of Carrù in Piedmont). Einaudi's impressive collection of early editions of economics, humanities and literature is frequently cited by antiquarians. Celebrated in Italy for all these capabilities and professional accomplishments, Einaudi was also well-known abroad for his relations with countless academics and his collaboration with international academic journals newspapers and magazines most notably as the Italian correspondent of the *Economist*.[2] His pungent yet fluid prose style earned him a name as editorialist for the *Corriere della Sera* in Milan and, earlier, for *La Stampa* in Turin.

[1] For a more extensive review of Luigi Einaudi's multifarious pursuits, among many works see Riccardo Faucci, *Luigi Einaudi* (Turin: Utet, 1986). Luigi Firpo, commissioned by Fondazione Luigi Einaudi in Turin and with the collaboration of the Bank of Italy, edited a voluminous collection of thousands of Einaudi's works; this was followed by a supplement brought out by the Foundation.

[2] See Roberto Marchionatti, (ed.), *"From our Italian Correspondent", Luidi Einaudi's Articles in the Economist, 1908-1946*, (Florence, Olschki 2000).

Fifty years have elapsed since his passing, but the memory of Luigi Einaudi is still vivid in Italy. Together with the philosopher Benedetto Croce, he forged the culture of liberal thought in Italy and was a leading figure in the drafting of the republican Constitution even while retaining, in the Piedmontese tradition, his sympathy for monarchy. He was also a convinced European federalist, endorsing the theses of Ernesto Rossi and Altiero Spinelli's *Ventotene Manifesto*, which called for a federation of European states as the way to achieve peaceful and fruitful coexistence among the peoples of the Continent.

We have a good number of biographies of Einaudi and equally numerous analyses of various aspects of his thought.[3] A half-century after his death, the focus here will be on two of the many subjects he dealt with: one general, the other typically Italian. The general question is the reason why liberal thought around the world evolved towards the acceptance of ever more extensive government intervention in social affairs instead of laying the groundwork for full individual freedom and hence full individual responsibility.[4] The specifically Italian question is why the political movement representing liberal thought – fundamental to the formation of the modern democratic state – lost its hold on voters and faded away. Naturally the two inquiries proceed in parallel, the concept being to see whether there is some particular trait inherent in the evolution of liberal ideas themselves and whether Einaudi's own thought bears some responsibility for Italian liberalism's loss of support.

The political role of liberalism. Liberal ideas gained widespread influence beginning in the eighteenth century among the peoples that

[3] *Rivista della Scuola superiore dell'economia e delle finanze* has compiled an extensive bibliography of works on the thought and action of Luigi Einaudi, available at www.rivista.ssef.it.

[4] The Bank of Italy, in its Historical Series, has recently published the proceedings of the Bank's scientific conference *Luigi Einaudi: Economic freedom and social cohesion*, 13 May 2008, as Alfredo Gigliobianco, (ed.), *Luigi Einaudi: libertà economica e coesione sociale*, (Rome-Bari, Laterza 2010).

were oppressed by absolutist regimes – either because they were subjects, under the rule of men and not the rule of law, i.e., law democratically approved. In Joan Robinson's terms, liberal ideas provided the ideological charge required for the oppressed peoples to decide to pay the price of independence and, where possible, democratic freedom. This same principle applied to Italy, both in the Risorgimento and in the struggle against Fascism.

With the, at least, formal achievement of the rule of law and not of men, peoples turned their attention to what was called – for simplicity, and with an awareness of its different nature – "freedom from want," which liberals initially termed "welfare". This notion, irresistibly, put government at the centre of social life and retreated from the classical liberal aim of freedom, understood as the ability to choose one's destiny, as long as one also accepts responsibility for it. This is what Kenneth Minogue called the unpredictable drift of political doctrines, of which history offers innumerable instances.[5]

The Inquisition as a political doctrine (for it was that) is perhaps the most striking historical example of a religion becoming a form of government and justifying the elimination of its opponents as heretics. No less striking was the course of the political doctrine born of the Enlightenment, in which the advocacy of liberty, equality and fraternity ultimately produced the Napoleonic wars of conquest in the name of those sacred principles. The doctrine of the Glorious Revolution in England, one of the deepest roots of the industrial revolution, offers another example of such deviation, in that it triggered the explosion of British colonial imperialism. National Socialism, which arose to promote the interests of the German people, ended up as the most terrifying attempt at imperialistic conquest in modern history. And Fascism too, which at first advocated free markets (at least in finance), eventually espoused saber-rattling colonialism. After World War II, in part through its own power and in part in response to the ideological

[5] Kenneth Minogue, *The Liberal Mind*, (Indianapolis, Liberty Fund, 1963).

competition with Communism, liberalism increasingly fell victim to a tendency to seek citizens' welfare rather than their freedom of choice, most classically in the Beveridge Plan.

Luigi Einaudi was not immune to this deviation of liberalism, perhaps owing to the still-living socialist ideals that had influenced him in his youth and that had in the meantime become an integral part of liberal political doctrine itself. As a young man he was engaged with the review *Critiche sociali,* directed by the Socialist leader Filippo Turati, who considered the champions of laissez-faire "generals without an army".[6] In Einaudi's view the enemy was not large capitalist enterprise but "usurious banks and shopkeeper usury". His earliest writings showed his innate concern with the great needs of society, from workers' well-being to tax justice, though it must be recognized that he always came down squarely in favour of individual and market responsibility, as against public assistance and government intervention. Einaudi's espousal of orthodox socialism, if it can be so considered, was typical of the era's youthful passions, which came to be increasingly tempered by education and the observation of reality. In his eyes, the foundation of liberal society consisted of small entrepreneurs, especially those rising out of the lower classes, because they had to grapple with the market, while he always suspected big business of intriguing for government favours in the unceasing quest for oligopoly and monopoly power, which was anathema to Einaudi.

Nevertheless, Einaudi was labeled a socialist, which offered Vilfredo Pareto a justification for refusing him a professorship in Geneva. Actually, however, the opposition between the two was methodological: Einaudi's approach was Ricardian, Pareto's neoclassical.

So in seeking the answers to our two questions, we must start from Einaudi's earliest writings. In particular, we should refer to the collection of essays edited by Giuseppe Prezzolini as "The ideals of an economist", 1921, and to that brought out by Piero Gobetti, "The

[6] Riccardo Faucci, *Einaudi,* p. 7.

battles of labour", 1924.[7] Skipping the following two decades of feverish publication, we can see Einaudi's ideas truly taking shape in the "Lectures on social policy" that he gave to Italian refugees during his own exile in Switzerland – a true programmatic manifesto for the Italy that would come.[8]

We also need to dwell on the issue of tax justice, one of Einaudi's greatest areas of specialization. The natural reference here is a series of lectures first published in 1929 (but developed conceptually beginning in 1911) as "Contribution to the quest for an 'optimal tax'" and reprised nearly a decade later (in 1938) in "Myths and paradoxes of tax justice".[9] Technical though they are, these writings are important to the logical and practical underpinnings of the judgment we shall make on Einaudi's insemination of "social thought" in a liberal vein, which led to an apparent diaspora of his disciples that is closely reminiscent of Pareto's dichotomy between "rational" behaviour on the one hand and "residuals" or "derivations" on the other.

For reasons of topicality, these reflections will be followed by considerations drawn from Einaudi's "Sermons", dating to 1920,[10] which analyzed the "economic traumas" born of the First World War, above all the excessive public debt – an eternal problem for unified Italy and one still most relevant today – contracted during the war. The collection includes a minute analysis of the pros and cons of a wealth tax, an issue that has now come back into fashion.

Finally, we cannot avoid an account of the dispute between Croce and Einaudi on the concepts of economic liberalism and political liberalism, where we find confirmation that Einaudi's social conception

[7] *Gli ideali di un economista*, (Florence, Quaderni della Voce 1921); *Le lotte del lavoro*, (Turin, Gobetti editore 1924).

[8] The lectures formed part of a series of Einaudi's writings in 1943 and 1944. They were first published together as *Lezioni di political sociale*, (Turin, Giulio Einaudi editore 1949).

[9] *Contributi alla ricerca dell'"ottima imposta"*, (Turin, Giulio Einaudi editore 1929); *Miti e paradoxxi della giustizia tributaria*, (Turin, Giulio Einaudi Editore 1938).

[10] *Prediche*, (Bari: Laterza 1920).

is so broad – though not so broad as Croce's – as to embrace the sort of readings given by many "left-leaning" liberals.

2. Beneath and beyond the tasks of the economy

In "The ideals of an economist" Einaudi advises the reader that the collection consists of "articles not strictly economic in nature, writings on the margins of our special field of study that each of us, from time to time, feels compelled to send out into the world, almost as if to testify that we do not feel ourselves to be only economists ... but live the life of all, and especially the life of our nation." He adds that the work concerns "my fixations: school as education, England, the formation of Italy through Piedmontese history, the necessity of supranational government". Other topics are "war", "respect for one's enemies" and "a close look at the traditions of local history" (not, needless to say, in any way resembling today's Northern League ideology).[11]

"Labour struggles" republished writings from 1897 onwards setting forth his "central ideas" on labour. They demonstrate, he says, his "irreducible scepticism, almost physical repugnance, with regard to benefits provided from the outside, to the well-being that it is intended to procure for workers through laws, regulations, collectivism, paternalism, the intermediation of political idlers ready to settle disputes by arbitration, by the intervention of specialists, by cutting the loaf in half; and a heartfelt approval of the efforts of those who desire to elevate themselves on their own and in this struggle, fight, falter, and rise again, learning at their own expense how to win and to better themselves. Scientific socialism and Russian collectivism, as schemes for the organization of society or attempts to apply them in practical terms, do not interest me. They amount to less than nothing. By contrast, the socialist sentiment, of the kind that permitted the workers in the Biella area and the port of Genoa to proudly raise their heads,

[11] *Gli ideali* ..., p. 7.

and persuaded them to reach out to their fellow workers, to think, to debate, to read, was indeed something great, which left its mark on Italian history."[12]

"Today the labour question in Italy has changed name: instead of red or white or yellow federations and local labour committees, we speak of fascist corporations. What substantial contribution have they made to the labour question? I mean the principles, not the details. It is unimportant that in many instances the corporations behave in the same way as their red antagonists, that they too, at times, resort to violence against opponents, strikebreakers, or the followers of other faiths, and that they declare anathemas or boycotts against others, or aspire to monopolies. These might be contingencies, that have no part in the doctrine. What this doctrine is I would attempt to clarify as follows:

"The principle of the struggle between the two classes of owners and workers is detrimental to production. Each of the two adversaries imagines it can achieve maximum benefit by destroying and expropriating its opponent. The owner attempts to reduce the worker's wage to a minimum; the worker wants to annul the return on capital. As a result of the struggle and the oppression of one party by the other, both are damaged in the long run, and above all the nation is damaged."[13]

This collection brings out the principal features of Einaudi's philosophy of liberty as respect for others and the sacred character of labour, notions found in others of his writings as well. What moved Einaudi to bring the collection together was his introduction to an all-but-forgotten essay by the British economist William Smart (1853-1915), brought out by the Laterza publishing house under the title "The spiritual testament of an economist" (*Il testamento spirituale di*

[12] *Lotte* ..., pp. 7-8. Einaudi was referring to two historic strikes: that of the textile workers of Val Sessera, which began on 6 September 1897, and that of the Genoa dockers of 18 December 1900 against the Prefect's ban on the re-opening the central labour council after it had been dissolved.
[13] *Ibid.*, pp. 9-10.

un economista). As Einaudi saw it, Smart's work represented "the confession of his intellectual doubts, his human anxieties, his effort to peer over the hedge of the economist's private garden to see what was happening in the great world, how economic questions are connected with moral and religious questions, the ends that make life worth living."[14] The heart of Einaudi's presentation was John Ruskin's code for his companions in the Guild of St. George, of which Smart was a member. It is an act of faith in the "nobleness of human nature" and lays down a set of values to believe in: hard manual labour, rejection of deceit and violence. But what drew Einaudi to this piece of history goes beyond this credo to embrace the rest of the story, which he related with the wealth of detail typical of a profound student of the history of economic thought and of the intellectuals in which that thought was embodied. Ruskin was surprised to learn that Smart had left a position as an industrialist in his father's company to study economics and had managed to reconcile his credo with that discipline, which Ruskin, instead, believed contradicted his code of human and social values in offering theoretical support for the exploitation of men by a domineering few (the "owners"). But Smart considered that having been himself an industrialist was "invaluable preparation" for teaching an economics centring, as in Adam Smith, on human nature and treating labour with the greatest respect, as well as for the practical realization of Ruskin's credo. Unlike his mentor, Smart denied that economic science was intended "to defend any particular system" and held that it served to explain how men, cooperating with one another, "earned their daily bread."[15]

The "Lectures on social policy" represent a balance-sheet of Einaudi's economic learning to that point, a clear expression of his scale of social values and a programme for the post-Fascist Italy that was already taking shape. The titles of its 151 sections, divided into three parts – on the market economy, on some problems of social policy,

[14] *Ibid.*, p. 221.
[15] *Ibid.*, pp. 223-24.

and on the concept and the limits of equality of points of departure – shows the breadth of the matters treated and the logical path that Einaudi followed.

The lectures begin with an examination of the free market, which Einaudi considers not just as the primary instrument for economic efficiency but also the foundation of social welfare. He dwells on the premises and characteristics of the components of the market, highlighting the purposes and the distortions of workers' associations and concluding with a discussion of the pros and cons of profit-sharing. The work ends with an examination of the second cornerstone of liberal doctrine after the competitive market, namely equal "starting points" as the precondition for different "outcomes", dear to the egalitarian philosophies that have done Italy so much harm. Einaudi defended the disparities in the distribution of income and wealth as the unavoidable result of meritocracy, once fiscal obligations have been discharged.

It is not my intention here to offer yet another exegesis of the "Lectures," but some references are necessary. Einaudi rejected laissez faire, maintaining that the market is "a stupendous mechanism" but one that cannot be left to its own devices. His thought was in line with the ordoliberalism of the Freiburg School, with which he was familiar through his friendship with Wilhelm Röpke, whose ideas he helped to popularize in Italy.[16] The market's job, says Einaudi, is "to register demand and so guide production" but, he adds, "it does not register needs". So we must not confuse the market mechanism, which requires antitrust action against monopoly and positional rents, with the redistribution of income and wealth, which according to John Stuart Mill, whom he cites, "is determined by the decisions and will of ... people".[17] However, there exist rigorous criteria for the expression of this will, which Einaudi underscored in a discussion of the Beveridge Plan, a hot topic of the day for Italian liberalism

[16] *Lezioni* ..., pp. 44-45.
[17] *Ibid*, p. 59.

as the possible answer to the Fascist legacy of the "labour question".

Einaudi's clarification of the matter, to my mind, consisted essentially in downgrading the importance of the Beveridge Plan. First, he noted that, already under Henry VIII and Queen Elizabeth I, England had recognized poor people's right to assistance. This was the approach taken by Bismarck in the later nineteenth century with the creation of a social, security system for the German people, upon which other countries patterned their own programmes. Beveridge was seen in this light. But Einaudi gave it his own special reading, contending that its real purpose was merely to "establish some sort of order in the unspeakably bizarre features of existing British law, which oblige the persons afflicted by unfortunate events to run from Herod to Pontius Pilate, to pay to and collect from different offices, to suffer from legislative blind-spots that leave some cases uncovered, but allow them to profit from overlaps, thanks to which one can choose between different subsidies, naturally taking the more advantageous."[18] And he added that "if we abstract for a moment from the question of principle and posit that some minimum income does have to be guaranteed, the Plan does not face the problem squarely in its straightforward formulation but provides only that in the case of certain harmful or costly *events* [sic] – accident, disability, old age, death, marriage, parenthood, widowhood, illness, unemployment – an allowance, or a subsidy, or a pension must be given to the insured."[19] Einaudi acknowledged that if we look not at means but at ends – in whose regard it is not up to economists to choose the solution of universal social insurance, for rich and poor alike, but to philosophers and politicians – the Plan was "manly", but he said it induced laziness and would provoke growing dissatisfaction. So much for the welfare system! And not without sound reasons, either. However, he did recognize that "social problems are complicated ... [that they] do not admit easy solutions and ... in a free country the governing class must get

[18] *Ibid.*, p. 70.
[19] *Ibid.*, p. 71.

accustomed to seriously discussing studies, observations and arguments, shunning facile thought and demagogy like the plague. ... A free gift will not only elicit gratitude and an effort to deserve it but also prompt recrimination of its insufficiency."[20]

Einaudi was aware of the market's limitations, the distortions and abuses of social solidarity, which are so glaring in the South of Italy and in backward countries, and the virtual impossibility of ensuring equal starting points. Although these ideas have fertilized Italian intellectual life, in the practical construction of postwar Italy they were defeated, and the deeply anti-meritocratic concept of equality of outcomes triumphed.[21] He remained solidly anchored to the liberal orthodoxy that each man is master of his future, i.e. is responsible for it, and that the state must not take up the burden of that responsibility but only ensure equal opportunity for all. In the awareness, perhaps, that perfect markets and true equality of opportunity are hard to achieve, Einaudi allowed a logical passageway to welfare policies, an open door for ever-increasing doses of government intervention that eventually drew liberals into the sphere of Labourite or Keynesian positions. Paolo Baffi succeeded in setting rational conditions for taking that passageway, such as the maintenance of monetary stability under a fixed exchange-rate regime, budgetary rigour, and a market open to international competition.[22]

[20] *Ibid.*, p. 94.

[21] In rereading the "Lectures" I realized that I still bear the stigmata of my initial contact with the thought of Einaudi, who was my unwitting mentor: I never attended his lectures but only read his writings and heard the accounts of Guido Carli and Paolo Baffi, his successors at the Bank of Italy. I have found the same thing in my own students, which is worrying indeed, because this sort of imprinting occurs both when teaching opens the student's mind to doubt and the constant search for truth and when it is closed and dogmatic. Einaudi's "Lectures" contain notions that have never since left me: the discipline that the market imposes in the management of resources, an aversion to the "institutionalization" of social solidarity in lieu of voluntary charity and to the purposes and techniques of income redistribution attained through fiscal action (public revenue and expenditure) rather than by contractual means.

[22] On this, see Paolo Baffi, *Studi sulla moneta* (1961) and *Nuovi studi sulla moneta* (1976) (Reprint, Soveria Mannelli, Rubbettino 2011).

3. Distributive justice

A good starting point for examining the concep of tax justice is the 1920 collection of "Sermons", which Einaudi said were "writings ... that share the common nature of a call to abstinence, thrift and sacrifice" to overcome the financial trauma of "public debt exceeding 100 billion lire" owing to war spending, which constituted "a terrifying loss to the national economy."[23]

In setting out his socio-economic concept of distributive justice, Einaudi makes one key specification: it is not the market's job to attain it but government's job to regulate it. On condition, however, that government intervention does not undermine market competition, which is what prevents the conversion of profit into rents by "constantly obliging entrepreneurs to effect process and product innovation." He added that "it is the workers' interest to demand and safeguard the working of the market in order to enjoy its benefits in the form of lower prices and better product quality rather than higher wages, which keep costs high, prevent prices from falling and in the long run actually work against their own interests."[24] For Einaudi, what counted was the purchasing power of wages, not their nominal level. The harm that the opposite notion wrought on economic growth in postwar Italy is common knowledge, especially considering that Italy's economy has been export-led. International competition based on curbing costs and only mitigated by competition in product quality (typical Italian exports), powered by the drive for new, higher profits, called for embracing the Einaudian concept of purchasing power rather than Socialist leader Pietro Nenni's idea of raising wages by redistributing profits and supporting employment by public policy.

Even more than in his distinctive conception of the labour market's operation, Einaudi's liberal thought is to be found in the different social objective he set: namely, constructing a system permitting the

[23] *Prediche*, Preface, p. vii.
[24] *Ibid.*, p. 19.

equality of starting points and respect for the consequent outcomes as corollary to meritocratic principles. This is in conflict with the far left, which sought equality of outcomes as the corollary of social equality and denied the merit principle, considering that unequal outcomes depended on different endowments, not differences in individual effort. Here again, the principal instrument for achieving Einaudi's goal was the competitive market, while the Catholic and secular left sought to subject its operation to rules and constraints. Hence Einaudi's celebrated dictum, "The market registers demand, not needs"; and the admonition of his disciple Guido Carli: "In those days, the word 'market' was meaningless" and his recognition that "Einaudi alone believed that a world hemmed in by constraints in which the fresh air of trade and ideas did not circulate freely, was morally abject."[25]

It is a short step from the conception of labour market, or from starting points and outcomes, to the analysis of distributive justice attained via taxation. The fiscal system is the chief instrument of redistributive action on the part of government, but it is also the one with the most heavily mythicized ends and the least well-known paradoxes. Einaudi did not question the state's need to finance the essential services for which it exists, but no more than the minimum required for legislation, law enforcement and defence, plus education, pensions and health care. Naturally all this was to be accomplished without waste, theft, corruption, and also without debt. Einaudi is credited with Article 81 of the 1948 Constitution, which prohibited deficit spending; but he is also blamed for interpreting it so as to define the issuance of public debt securities as "funding". This created the mechanism for the spread of the financial plague that has afflicted us for decades and that now seems to have reached an unhappy end of the line: either deflation or default.

Einaudi's ideas on obtaining tax justice were clear, but accompanied by the deepest scepticism over their practicality, owing to the prevalence

[25] For these concepts, see Luigi Einaudi, *Lezioni di politica sociale*, Part I, Section 6; Guido Carli, *Cinquant'anni di vita italiana*, (Rome-Bari, Laterza 1993), p. 33.

of "myths and paradoxes". Even so, as a "great preacher" he did not shrink from setting out his views with his usual incisiveness. Notwithstanding this virtue, the work has now become quite dated, not only because it was published in 1938 but because the world has changed. Practically everywhere, and most particularly in Italy, the design of taxes is no longer directed mainly to ensuring a fair sharing of the fiscal burden but to procuring the funds needed for the growing commitments of the state for welfare and to stimulate output and employment (or, à la Roosevelt, "tax, tax, tax; spend, spend, spend; elect, elect, elect"). Perhaps the best indicator of this evolution (regression) comes from the tax rates used in Einaudi's practical examples: they ranged from 5 to 20 per cent of the income on which they were to bear, whereas today we have marginal rates equal to 50 per cent of personal income, or even more if we count the excise taxes incorporated in the final prices of essential basic goods like gas and electricity.

4. Wealth taxation

Given today's excessive public debt, wealth taxation has become a topical issue. Einaudi's analysis of the matter displays a scientific rigour of which no trace is to be found in the heated debate sparked by recent proposals for such a tax in Italy. Based on neoclassical theory, according to which the value of a good is equal to the total monetary return on it multiplied by the inverse of the rate of return, Einaudi simply observes that any tax on income lowers the rate of return, hence the value of the asset. That is, any tax on income is per se a tax on wealth. Of course, it does not escape him that an increase in income may be due to excessive money supply, another neoclassical idea, which leads "mythomaniacs" (Einaudi's word) to call for a tax on inflation-induced value gains, blind to the fact that the purchasing power of the proceeds from the sale of inflated assets is unchanged. That is, there is a merely nominal increase in wealth, which government, the source of the excess money supply and hence of the inflation, expropriates, without seeing that in so doing it cuts into the real value of accumulated savings. For Einaudi, this is one of the fundamental

aspects of tax justice. As noted, he held that the value of accumulated savings, after the taxation of the income that generates it, depends on the return to investment; and that to defend that value, savings should not be further taxed, except for advantages accruing from positional rents – but these must be eliminated by specific regulations of the market, not wealth taxes.

This may be considered to be an extreme thesis. In fact, the Sraffian school demolished the neoclassical value theory on which it was based, concluding that the value of a good cannot be calculated, because first you would have to know the return on it – a vicious circle in logic. Nevertheless, that theory of value still survives in the formulas used to value financial assets – so for these goods, at least, Einaudi's ideas are still current.

5. Conclusions

A number of different explanations have been suggested of why liberal ideas, which have done such service to Italy, are now virtually extinct here. To be honest, the same has happened throughout the world, the state having the upper hand everywhere. But let us stay in Italy. One interpretation is that after the Second World War Italy introduced female suffrage, and that Italian men, under the spell of their age-old notion of woman's role, had not transmitted the liberal culture to women, as is shown by the fact that Italy's great liberal thinkers do not number even a single woman. Italian women were mostly of the Catholic faith, and those who were not tended to be Socialist or Communist. Historians tell us that women were given the vote in order to enable the Christian Democrats to win the elections and expel the Communists from the alliance that had been forged to defeat Fascism and usher in the new Republic founded upon labour, but also upon the market. Later, the de facto overthrow of that Constitution was accepted with the endorsement of the Treaty of Maastricht and in particular its Stability and Growth Pact, and we are now on the threshold of another Republic, this one founded (badly) on the market, with labour a mere residual.

Apart from this interpretation, the inquiry into why students, admirers and followers of Einaudi's ideas took paths that diverged so far from liberal thought has produced a series of conclusions.

First of all, in the Italian language and in Italy's intellectual culture the term "liberal" has never had the clarity of content of its English-language equivalent as used either in philosophy or in politics. The Italian Liberal Party, outlawed under Fascism, was re-founded, not accidentally, following the substantial contribution of liberals to the postwar Constitution of the Republic. In its drafting, the liberals countered the desire of the two mass parties, the Christian Democrats and the Communists, who were certainly not enamoured of the competitive market. The liberals succeeded in enshrining in the Constitution the position of labour within a competitive market and the recognition that civil progress consists in the freedom of all citizens to pursue the purposes they consider consonant with their personal priorities, consequently taking responsibility for their choices. The Constitution is laden with principles that facilitated the expansion of state intervention and the shift of costs to the entire community. The effects have been a tax burden now equal to nearly half of gross national income and a public debt significantly greater than GDP. That is to say, the concept of the state that came to prevail in Italy is the opposite of the liberal notion, which would leave it to individual commitment and sacrifice to safeguard against life's risks, not place the burden on one's neighbours and often, unwittingly, upon oneself. But instead of "cradle to grave" public welfare guarantees, there was a steady encroachment on freedom, the paralysis of the country's growth, and the severe erosion of state sovereignty.

In Italy, there has always been a good deal of confusion between the concepts of economic and political liberalism. Croce and Einaudi, according to Einaudi himself, "embarked on a clarification" of the matter

[26] The debate, plus other writings of the two protagonists on the same theme, are collected in Paolo Solari, (ed.), *Liberismo e liberalismo,* (Naples, Ricciardi 1957). The quotation is on p. 123.

in a historic debate conducted between 1927 and 1931.[26] Croce wrote that "the economic formula of laissez faire shares the character and the origin of the political formula of liberalism, and derives, like the latter, from the ... immanent and historical conception of life"; but liberalism is "the formula of free inquiry and free discussion, the idea that truth is not there for the finding but is perpetually in the making; it is not a thing but a thought, indeed it is thought itself." And he added that "the problems arise as soon as laissez faire – economic freedom – is given the value of a rule or supreme law of social life; because in this case it is placed on a par with ethical and political freedom, which is avowedly a rule and supreme law of social life, and this necessarily brings conflict." Croce admitted that "it may be – indeed, it is – the case that ... liberalism approves many or most of the demands and measures of laissez faire, to which modern civilization is indebted for so many benefits; but it approves them not for economic but for ethical reasons, and for those reasons sanctions them."[27]

Without failing to praise the "joy of the spirit" that Croce's analysis elicits, Einaudi denied that "economists assigned to 'laissez faire' ... the value of an economic principle, observing that the sole task of economic science is to devise the economically most advantageous solution for attaining a given end. But the end is not set by economists and often it is not an economic but a political, moral or religious end. And the solution is not always that of *laissez-faire, laissez-passer*; instead, depending on the nature of the case, it may be state oversight, direct state or municipal conduct of an activity, or something else again."[28]

Einaudi's ideas do certainly contain the germ of a doctrine that rises to the status of Croce's system of rules or supreme law of social life, to follow the "ordoliberal" interpretation of the Freiburg School. Germany took the salient features of this economic liberalism as the essence of the political system, while Italy rejected them, because

[27] *Ibid.*, pp. 11-13.
[28] *Ibid.*, p. 129.

most Italians, including most liberals, were attracted by Beveridge-style welfare and, as usual, overdid it. But it did not accept the constraints of the free market, which, as Einaudi explained, had to be imposed in order to prevent the welfare system from degenerating into restrictions of liberty and ever-expanding government powers. Decades later, Britain reacted with the economic liberalism of Margaret Thatcher, but Italy would not take up Einaudi's economic-political liberalism, in the modern variant suggested in Guido Carli's "Statute of Enterprise", otherwise known as the law of competition.

In the eternal uncertainty born of the search for an impossible "third way", the "leftward" shifts of the Italian political system, including the strands of liberal thought rooted in the Einaudi school, form an integral part of liberalism only if one abandons a rigorous conception of the free market. For that is the indispensable logical and political premise on which the Beveridge Plan was built. Italy elected instead to tighten the external constraint, relinquishing its monetary sovereignty and limiting its fiscal powers by agreeing to the Maastricht Treaty and the Stability Pact. These accords, to my mind, are in no way liberal, as they do not ensure equal starting points or the freedom to choose one's future. There was an increasing demand for public intervention, ultimately producing a system, as Carli said, in which the state is present where it is not needed and often absent where it is. In a word, this is a problem that Italy has not yet solved and that is becoming more and more stringent. And it is certainly aggravated by the lack of enlightened minds and righteous consciences like those of Luigi Einaudi.

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