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# **Luigi Einaudi's Considerazioni finali**

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C. M. Mariani, Portrait of Luigi Einaudi, Bank of Italy's Collection



## Luigi Einaudi and the *Considerazioni finali*<sup>1</sup>

When, on 31 March 1947, Luigi Einaudi read out his ‘economic and moral’ analysis of the ‘facts that [had] occurred’ in 1946, reproduced at the end of the Bank of Italy’s Annual Report, the term *Considerazioni finali* (Concluding Remarks) was merely the title given to the last chapter in a dense text replete with data. His comments nonetheless ushered in a new genre in Italian economic literature; a genre to which all successive Governors would contribute (as at May 2021, there were 74 exemplars of the Concluding Remarks), summarising the analyses developed in the main body of the annual reports, critically assessing economic policies, highlighting public finance problems and indicating future trends. In the Bank, they are simply referred to as the ‘CF’ and I shall adopt the same convention in this conversation. Naturally, Einaudi’s seven successors have adapted this model to fit their own personality and the economic and social climate of the day. Much has changed since then. The fact remains, however, that for us the CF delivered in 1947 represent a model of communication, a template for the assumption of responsibility.<sup>2</sup> Yet they are also a linguistic model, we could even say a literary model (and we shall see why straightaway).

The CF referring to the year 1946 are a handcrafted prototype of the ones to come. Nowadays they are a complex and well-oiled machine, prepared by the Governor *pro tempore* together with a small number of close collaborators; the discussions involve dozens of managers and professionals. They are not just a way of assembling information, nor are they merely the sum of the considerations produced or collected by the Bank’s various departments; they are also an opportunity to help shape, in a frank and open discussion where the only thing forbidden is superficiality, the Bank of Italy’s political and economic stance.

Einaudi, on the other hand, penned the CF alone. The Bank of Italy’s Historical Archives (ASBI) still contain these handwritten pages: leafing through them, it would be easy to think that they were written in a single draft (the image below shows the opening words). Of course, behind his *Considerazioni* was a study of the ‘facts that [had] occurred’ prepared by the economists in the Economic Research Department.

<sup>1</sup> Without attributing any opinions to him, I wish to thank Alberto Baffigi for his valuable help in drafting this document.

<sup>2</sup> ‘A model of economic education applied to the analysis and discussion of economic events at the time in which they occur’ (Visco, 2016). The judgment refers to another set of writings by Einaudi (*The difficult art of the banker*), but is also perfectly applicable to the CF.

Questa l'analisi contabile  
delle principali partite del  
bilancio dell'Istituto si è  
impressa. Imposta ora <sup>congrua</sup> ~~data~~ dei  
fatti accaduti una ~~analisi~~  
analisi che direi economica  
morale. Come mai è accaduto  
~~che~~ che il governatore della  
Banca d'Italia ~~è~~ <sup>è</sup>  
assistito, una ragione, al  
l'aumento della circolazione  
da fine maggio 1945  
ed il 20 gennaio 1942 - data  
della chiusura del partito della  
ricostruzione - <sup>uguale a</sup> ~~per un aumento~~  
di 103.812 milioni di lire, quasi

Source: ASBI, Baffi Papers, Monte Oppio, dossiers, 16, folder 3

Craftsmanship and a narrative timbre are, in any event, distinctive traits of Einaudi's CF. He was a writer in the full sense of the word: the linguist Valeria Della Valle reiterated this some years ago, at a conference organised by the Bank for the sixtieth anniversary of his election as President of the Republic. Della Valle recalled how, in 1968, Gianfranco Contini had included an excerpt from Einaudi's *Prediche inutili* (*Useless Sermons*) in the anthology he edited entitled

*Letteratura dell'Italia Unita (Literature of a United Italy)*. In his introduction to the text, Contini wrote that Einaudi's ideas had been entrusted to 'numerous articles in leading newspapers, revealing the quality of a great journalist and authentic writer. One of the hallmarks of his writing is his loyalty to the prose style of the late 1800s, veiled in a light patriarchalism [by which he meant a somewhat antiquated style] that ensures authoritativeness and generates detachment: this corresponds to the paradoxical attitude usually conferred on reasoning and affectation that this should remain unheard' (Contini, 1997, p. 540): a useless sermon indeed!

Contini ended his presentation by saying: 'The inclusion of an economist among the best prose writers of this century – those gathered in his anthology – serves to recall our attention to the very broad and insufficiently acknowledged role that functional writing occupies alongside autonomous writing in the contemporary values of expression.'

His ability as a writer is also on brilliant display in the text of the CF, but in this text, the affectation underlined by Contini, the bitter irony of the 'useless sermon', is not apparent. In that moment, Einaudi was the man called on to revive a fundamental component of the 'broadly defined government' of the country.<sup>3</sup> His writing accordingly plays an institutional role; it pursues at once technical, educational and moral purposes. Einaudi's prose becomes crystalline; it ranges from the painstaking reconstruction of the facts, to the slow and patient explanation of causes and consequences, to a call to duty: the duty, that is, of Italians to help in the collective reconstruction effort, within the context of the newly free institutions. For example, Einaudi says, what is needed now is a willingness to make the 'necessary taxation sacrifices' (CR 1946, p. 257).<sup>4</sup>

Exhortations are in no short supply; but the habit of the useless sermon, if we wish to call it that, is nowhere to be seen. What is, instead, very apparent is the antiquated style alluded to by Contini, which in that period took the form of various instances of '*all'uopo*' ('as it behooves') and '*in guisa*' ('in such a fashion'); and would remain, to some extent, in the CR of his successors too, though adapted to the passage of time.<sup>5</sup> Nor is there any lack – and this is more rarely found in Einaudi's writings – of rhetorical verve, of an almost Risorgimento-like tone. On the desire for sacrifice on the part of the Italian people, he concludes peremptorily:

'I do not even want to put the question: "are we going to find that willpower?" I do not put it, because there is but one answer to duty's categorical imperative: "I obey!"' (CR 1946, p. 37).

<sup>3</sup> See Gigliobianco (2006, pp. 194 *et seq.*).

<sup>4</sup> The year that follows the acronym 'CF' indicates the period to which the *Concluding Remarks* refer.

<sup>5</sup> See Astuti et al. (2020).

Einaudi puts his science and writerly ability at the service of the institution: he uses both to chip away tenaciously at ideological attitudes, attitudes that renounce the examination of the facts. Norberto Bobbio said that in a country prone to a fascination with idealism, Einaudi was one of a very select group of survivors of positivism, of those who follow the ‘lesson of the facts’,

*with their passion for well-crafted arguments, based on the data, for starting from a story rather than a quote; a current of thought that has never taken root in our country and that as soon as it tries to come out in the open is immediately bitten by tigers and their friends* (Bobbio, 1986, p. 86).

Einaudi bitten by tigers? Perhaps, but he knew how to defend himself. His writings are imbued with a pedagogical purpose and style (Gobetti called it a ‘vocation’). He would later write, as both grandfather and President of the Republic, to his grandson who was about to embark on his university studies, ‘What is important is to learn to distinguish what is true from what is less true; how to reason’ (Einaudi [jr] 2017, p. 2). We know, too, that he wished that rather than asking children to study economics in the abstract, schools would do well to help them to grasp fully the meaning of the chapter on the famine in Alessandro Manzoni’s *The Betrothed*:

*In vain, however, Manzoni wrote stupendous pages on popular prejudices about the scarcity and abundance of wheat and flour, about middlemen and bakers; because every time the conversation today turns to increases in the cost of food, to retail and wholesale prices, to the misdeeds of hoarders and speculators, the same clichés that Manzoni’s irony had branded are read in the daily papers and repeated in rallies; and one’s heart sinks.* (Useless Sermons, p. 382).<sup>6</sup>

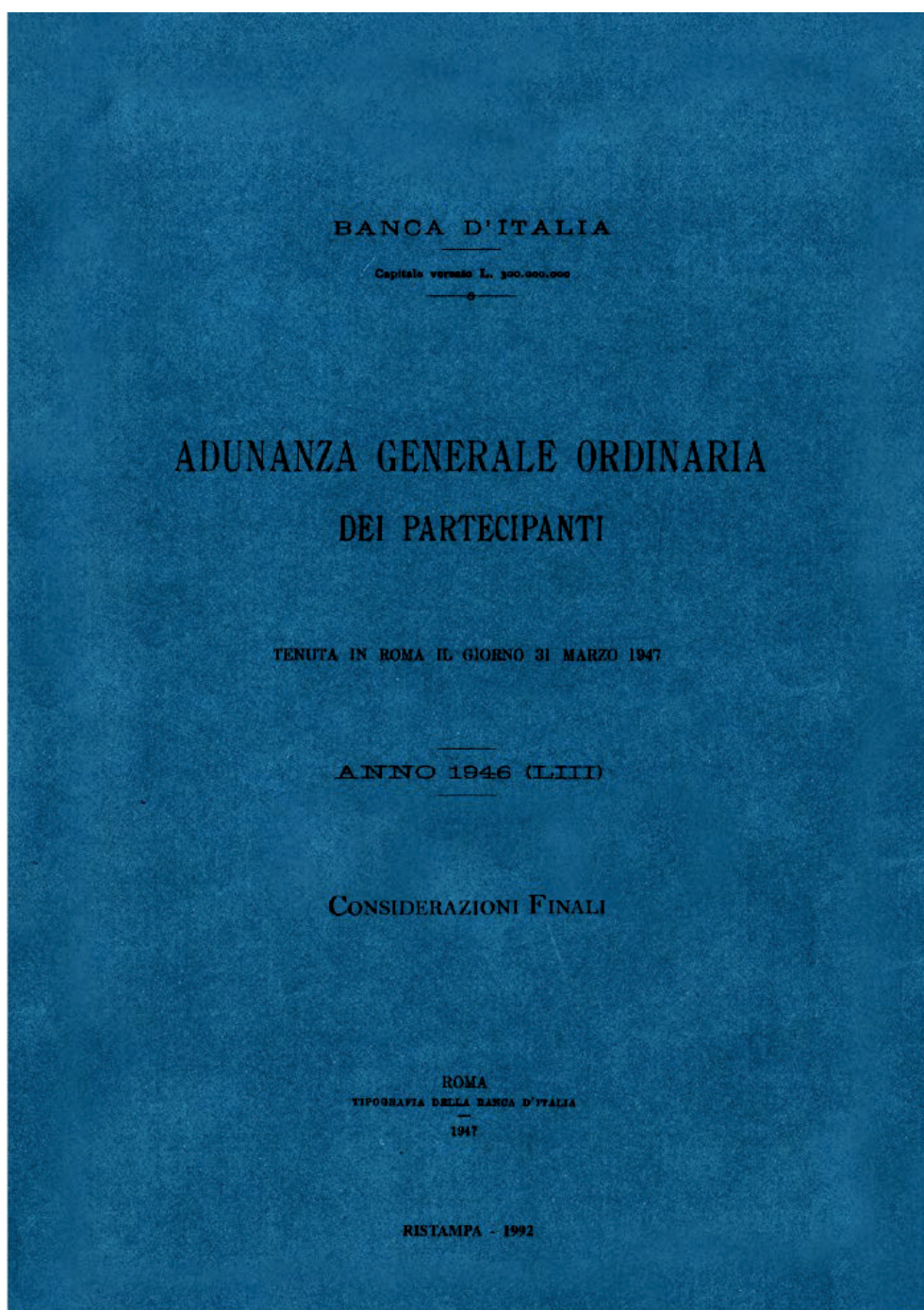
In this ‘passion for well-crafted arguments, based on the data’ he certainly found support in an institution such as the Bank of Italy. When Einaudi was called on to head it up, the Economic Research Department had already been established for around ten years. This was thanks to the skills and experience of a statistician of the calibre of Giorgio Mortara (persecuted under the racial laws in 1938; Baffigi and Magnani, 2009) and to the intelligence of the young Baffi, who launched the first statistics on credit (Baffigi, 2010). Einaudi gave this activity greater momentum (Visco, 2010, p. 65); for example, he initiated the Survey of Household Income and Wealth, which is still conducted today (Baffigi, Cannari and D’Alessio, 2016).

Language evolves over time, but in the Bank of Italy, the aspiration to write clearly, rigorously and, if we can at all, with a certain aesthetic flair, has not gone away. A way of writing, in short, that is ideally capable of combining attention to detail and elegance; as effective as possible in pointing to the lesson of the facts, in explaining the reasons, and in warning about the implications, including the less obvious ones, of actions or (more often) a lack thereof. We have not always

<sup>6</sup>I owe this citation to Mingardi (2021).



succeeded, of course, and perhaps never fully; but the objective was and remains the same.



Of course, nowadays we do not simply rely on the individual talent of an economist-writer such as Einaudi. Yet the linguistic tools that we have adopted over the years would probably have been to Governor Einaudi's liking. He would perhaps have contributed to our *Manual for the drafting of institutional publications* (and would probably have criticised that capital 'g', normally used as the initial designating his institutional role: 'All *Capital* letters ruin the aesthetics of the page', he would write to Ernesto Rossi). He might have appreciated the instructions against excessively faddish language or tired clichés,

as when, for example, he spoke out against the use of war metaphors in economics. Valeria Della Valle helps us once again here, by emphasising expressions such as ‘offensive action’, ‘new front’, ‘dialectical weapon’ and ‘ongoing fight’, which Einaudi thought belonged to a linguistic field, a kind of phraseology which (in his words)

*more properly described narratives of war and not of peaceful commerce. [...] So long as commercial facts are viewed through a lens of grotesque bellicose wording it is difficult to see them for what they are; facts that are never about one winning or the other losing, but always about both winning together, albeit to a greater or lesser extent, but always to the parties' mutual satisfaction. One may be meagre, the other hearty, but both parties will always be satisfied. Those who renounce a deal only because the other party does it better is un allocco (a ninny) and will go, rightly, into a decline. (The President's writing desk; Einaudi, 1956, pp. 101-103).*

We cannot know how he would have dealt with a linguistic question that is very much a point of debate today, and that is the growing presence of English terms in technical economic language. We cannot know whether he would have adopted the purist attitude of those who make it a duty to reject them *en masse*, or agreed with the more open position that I expressed some time ago:

*In our publications and speeches, we are careful to avoid anglicisms when they are inelegant and serve no purpose, when the use of the English word arises more out of laziness and sloppiness than out of genuine necessity; when an equivalent, perfectly adequate, word exists in Italian and it makes the text clearer and more incisive. But we do not declare war a priori [another bellicist metaphor!] on English in the coining of new economic, banking and financial terms. Nowadays, new words, when they indicate new things, are formed everywhere in the same moment. Not infrequently, the use of a global term to designate something global (a product or transaction) facilitates communication, including between the inhabitants of a single nation, who are inevitably immersed in the international flow of information and ideas. Not infrequently, the struggle to find a native equivalent, a linguistic calque, or at least the morphological Italianisation, can sound artificial and impede, rather than benefit, clear communication (Signorini 2013, p.6).*

We do not know it but (yielding a little to the common weakness of pretending to attribute to the great our own opinions on events they did not experience), it may please us to think that those who, like him, were nourished by the multilingual debate of a cultured Europe and were immune – a rarity at the time – to every intellectual provincialism, would not have been too distant from this in their thinking. (Who knows whether, by continuing to mine his impressive legacy of writings, someone will find a confirmation or rebuttal of this conjecture).

Thus far, we have talked about language. Yet language for Einaudi is not simply a vehicle; it serves to create concepts, to polish them and to bring them closer to empirical reality with vivid clarity. In this sense, using language well also serves to break down those ideological barriers that constantly risk undermining our reasoning. Guido Carli

had this in mind when in 1969, arguing in favour of a certain dose of pragmatism in economic policy and bringing the CR for that year to a close, he referred to the Einaudian conviction according to which, ‘the economist, faced with actual problems, can never be either a free trader or an interventionist... at any price.’

Here we come to one of the key points of the essence of the CR’s message. The previous quote confirms an open, reasonable and pragmatic attitude, but not one devoid of a clear intellectual compass. The free market was often the focus of Einaudi’s attention, whether he described the concept of competition, with a certain detachment, as ‘simply an abstract template that [economists use] in order to find a way to delve into reality’ (*Social policy lessons*; Einaudi, 1977, p. 60); or when he depicted it as the very cornerstone of liberty (there is no need to recall here the famous debate with Benedetto Croce, whose quasi-religious cult of the freedom of the spirit made it into a philosophical concept so rarefied that he refused to pollute it with the mechanics of the social sciences, nor perhaps with the experience of the Anglo-Saxon countries, where freedom had asserted itself in the concrete development of constitutional history); or, finally, when he defended – here with perhaps a more stereotypically Piedmontese than Anglo-Saxon spirit – its intrinsic morality, as an environment suited to productive effort and human industriousness. It is this later Einaudi that we also encounter in the pages of his CF, when he underlined the harm done to the free allocation of resources by the compulsory wheat stockpile policy.<sup>7</sup> It would be worth reading the entire page, an eloquent example of his style; I shall quote a few extracts:

*The compulsory stockpiles replaced one form of compensation with another: the security for farmers to receive the proceeds immediately in lire and for banks to earn interest and commissions replaced the certain reward of psychological satisfaction and the uncertain expectation of a positive or negative profit. It is not for the impartial observer to judge which of the two quantities is greater from the point of view of the general interest. Perhaps it can justifiably be said that this change in the criteria for remunerating those involved in transporting wheat from producer to consumer over time and space is an example of a more general shift: from uncertain and variable compensation to certain and fixed compensation. In a free market system, farmers, millers and bakers operated based on expectations for variable future prices; nowadays, since there are stockpiles, calculations are made based on certain prices guaranteed by the state and on equally certain transport, milling and bread-making remuneration guaranteed by trade union agreements and regulated prices... The current certainty tends to set the price at the level required by those firms that operate with the highest costs. A cost that was almost non-existent has been added to these high costs: the cost of the banking service, which is a boon to the institutions that finance the stockpiles and to the issuing institution, but not so advantageous for the community... The cost of the fixed remuneration is probably considerably higher than the variable profit, and this difference means a waste of time and labour and therefore a reduction in the collective social output (CF 1946, 233-234).*

<sup>7</sup> Translator’s note: whereby farmers could not sell wheat directly on the market but had to deliver it to public repositories at a fixed price.

A little further on:

*There is nothing that men hate so much as technical and economic progress, which is change, uncertainty and continuous anxiety. In the struggle between a handful of inventors and innovators, who love to gamble and aim high, even if aiming high sometimes leads to ruin, and the vast majority who want quiet and certainty, even if quiet means stasis, high costs and a mediocre life, mandatory stockpiles are a victory for the human majorities. We observers merely note that people's need for peace comes at a high price (ibid. p. 234).*

Here is everything there is to say about the practical utility of market mechanisms for pursuing static and dynamic efficiency in the economic system in a few words and with reference to a specific example (though of great social significance at that time). He does not feel the need to resort to reasoning that is too abstract, nor to formalised models. In *Conoscere per deliberare (Know to Decide)*; found in the first few pages of *The Useless Sermons*), Einaudi defines an economic theorist as being like 'a man of good sense who knows how to reason and has a critical understanding of the past and of the infinite errors made in the past' (p. 13). For Visco (2010, p. 66), 'the words "knows how to reason" summarise, with obvious understatement, the importance of economic theory and of reasoning with tools developed by economic science'. Let us add that they also summarise the calm and seemingly down-to-earth communicative style of their author, and to a great extent his *forma mentis*.

Visco goes on to say that, 'good sense excludes the doctrinaires, those who have a fixed idea and try to apply it to all situations'. Or, in the words of another of Einaudi's successors: 'Einaudi was not dogmatic; with regard to the free market, his position can be described as that of an optimist, not of an *ingénu*' (Draghi, 2006). Neither doctrinaire nor dogmatic, ready to adapt to the infinite variety of real circumstances, yet at the same time standing quite firm in his core convictions.<sup>8</sup> As is well known, he tried in vain in the Constituent Assembly to introduce an anti-monopoly clause into the Constitution; protecting competition only entered Italy's *de facto* 'economic constitution' thanks to the European treaties.

The importance of the free market as a social institution, or as a useful means for achieving an efficient allocation of resources, is a recurring theme in the CF, but with various nuances. In 1979, Paolo Baffi pointed out, with a hint of bitterness, that

<sup>8</sup> As an aside, there was an interesting, very vivacious private exchange within the Economic Research Department and encouraged by its Head, Paolo Baffi, on the comparative merits of the market and public intervention, with reference to the dual exchange system, towards the end of the 1940s. It is noteworthy in this context because it was inspired by the Bank of Italy's report for 1949, which Einaudi (President of the Republic at that time) said he had read carefully, 'a care merited by the high standard it maintains and thanks to which it is still the most important document that should be consulted now and in the future by anyone wishing to know about the Italian economy'. No less! (Visco 2010, p. 67).

*Compared with other nations the Italian people is at a double disadvantage in the exercise of economic freedom, in that its savings must be invested within the country and in a currency that is being rapidly eroded by inflation; expanding the freedom to carry out and settle current transactions to the full extent permitted by the country's external position is also a way of reducing the area in which the law is not fully respected as it does not meet society's true needs (CF 1978, p. 21).*

Three decades later, Mario Draghi clearly stated that

*intensifying competition and broadening the scope for market mechanisms are necessary for boosting production and are complementary to fairness. Competition is the best agent of social justice in an economy, in a society such as Italy's, where the privilege of a few based on the protection of the State is a recurring feature of its history (CF 2005, p. 9).*

Nevertheless, we cannot forget that for a few decades, the Bank of Italy firmly supported the limits on competition set out in the Banking Law of that time. In 1969, Guido Carli described the American banking system with amazement:

*Simultaneously with the change in the attitude towards competition, the American banks are increasingly turning into « financial supermarkets », which provide the most varied services to their customers: from trust administration to leasing, from keeping companies' accounts to computer services, from travel tickets to insurance policies. The authorities do not seem opposed to extending the range of services offered by the banking system; but they do rule out the possibility that the said range may be extended to include the operations of the financial market and its institutions' (CF 1968, p. 26).*

Another topic that would often come up in the CF of his successors can also be traced to those of Einaudi. Against a background of data that describe with precision, step by step, the channels that had led to the increase in monetary circulation, Einaudi introduced a theme that would recur until the 1970s and beyond. It was the narrative, based on the 'lesson of the facts', of a central bank enslaved by an economic and institutional structure that constrains its operations. He defined it a kind of 'fate' that prevents the central bank from choosing the monetary policy deemed most suitable and most useful under the circumstances. Einaudi wondered, however, if it was fate that tied the hands of the issuing institution. His answer is the following:

*Yes, if it is recognised, as it must be, that by virtue of conditions set outside of the Bank's sphere of action, the Bank had no choice but to comply with inescapable obligations. There was no freedom of choice: either increase the circulation or create economic chaos. Mali amendue (evils both); yet the second was by far the greater.*

*No, if we deny that an unavoidable fate presses upon us and necessarily forces us to carry out our actions (CF 1946, p. 231).*

The same theme recurs in the reflections of Einaudi's successors. In his first CF, delivered in 1976, Paolo Baffi quoted that sentence word for word (CF 1975, p. 42). He combined it with another well-known phrase, that of the 'seditious act', pronounced two years earlier by Guido Carli (CF 1973, p. 32):

*We asked ourselves then, and continue to do so, whether the Banca d'Italia could have refused, or could still refuse, to finance the public sector's deficit by abstaining from exercising the faculty, granted by law, to purchase government securities. Refusal would make it impossible for the Government to pay the salaries of the armed forces, of the judiciary and of civil servants, and the pensions of most citizens. It would have the appearance of being a monetary policy act; in substance it would be a seditious act, which would be followed by a paralysis of the public administration.*

The issue we are talking about is, of course, that of central bank autonomy, and specifically the constraints placed on its actions by governments' fiscal policies. This can heavily influence the monetary context, leaving the central bank with the alternative so clearly described by Einaudi and Carli and reiterated by Baffi.

This issue spans the three decades that separate Einaudi from Baffi; it would continue to be the core of the reasoning of Governors until the time of Ciampi. Yet though the topic persisted and we find similar diagnoses in the CF of various Governors, we cannot say quite the same about the way they dealt with the issue when faced with changing circumstances; more precisely, about the right combination of persuasion and direct activation of institutional levers.

Both elements are apparent in Einaudi's thinking. In the 1947 CF, he offered a rigorous analysis and a detailed examination of the facts in order to convince his audience of the soundness of his arguments and the reasonableness of his criticism of public intervention and excessive public spending. He concluded that: 'It is vital that fate, which forces the Bank of Italy to issue ever more banknotes, be deprived of one of the most powerful weapons that make us act badly, whether we want to or not' (CF 1946, p.237). A few months later, however, as he was in the exceptional position of being able to use both levers, that of the government and that of the central bank, he did not hesitate to use all the tools at his disposal to effect a sharp policy tightening that would lay the foundations of monetary stability for decades to come.

He was sustained in this controversial operation by his identifying sound economics and morals: Pierluigi Ciocca wrote that it 'was immoral to allow inflation to continue to consume Italian people's savings' (Ciocca, 2021). Incidentally, returning for a moment to Einaudi's activity as member of the Constituent Assembly, it is well known that he fought (in this case successfully, at least on paper) to introduce into basic law the principle that every law that envisages an expenditure must indicate the means for its financing. Equally well-known are his formal and informal interventions, during his seven years as Head of State, to ensure that this principle was upheld.

The prevailing intellectual climate and monetary and fiscal policy decisions were combined on an equal footing at that time. Federico Caffè puts it well, though from a culturally distant point of view:



*The restoration of the stability of the lira was a work of great technical virtuosity, which, moreover, marked the virtually unchallenged predominance of an intellectual current that heavily influenced later developments in the Italian economy... The all-embracing objective of economic policy became that of reconstituting and safeguarding the official currency reserves. The solution to the problem of unemployment, in reality if not in official policy statements, was entrusted to emigration soaring again and to improvements to be made 'in the long term'.*

*In everything that was done, and in much that was not done, there was a clear ideological source in this period. It consisted in the conviction that "market freedom solves many problems that all the wisdom of the law is unable to solve" (Del Vecchio, 1950). This cannot come as a surprise, given that the predominating voice in post-war Italian economic policy was that of Luigi Einaudi, flanked by Costantino Bresciani Turrone and Gustavo del Vecchio, who wholeheartedly supported him. Under their intellectual guidance, a free-market liberal inspiration distinguished the action of very real centres of power, such as the Bank of issue, the Ministry of the Budget (created especially for Einaudi), the Ministry of Foreign Trade, the Foreign Exchange Office...*

*Despite all due reservations, the vision that inspired the architects of Italian reconstruction was important because it led to action that, ultimately, turned out to be valid, namely Italy becoming part of the world trade system, the 'liberalisation of trade' (as it was called), without having to worry whether this opening up to trade was a cold shower for the economy. (2018, 391-392).*

(One cannot help but observe that, in view of the last paragraph, the previous claim that the issues of employment and development were forgotten raises a few questions; the ten or fifteen years following stabilisation saw rates of growth that have never since been equalled.)<sup>9</sup>

Let us now turn to Einaudi's immediate successor, Menichella. He reiterated the concepts expressed by Einaudi in his first CF (for 1947). Yet he did so in a lower key; he did not go on the attack rhetorically as his predecessor had, perhaps in part because of the positive period that the Italian economy experienced in his time at the head of the central bank, and perhaps because the intellectual climate at that time (as described by Caffè) did not require it.

Nor did Carli raise his voice in his denunciation, at least not until the abovementioned phrase, 'seditious act'. The latter, however, came at a time when the economic and financial situation and the intellectual climate were profoundly different from fifteen or twenty years previously. It is also interesting that, in his first CF in 1960, he praised the draft Treasury Law that aimed to put an end to the disorderly management of the wheat stockpiles, which Einaudi had indicated in 1947 as being the fundamental cause of excess monetary circulation (as well as a source of allocative inefficiencies).

<sup>9</sup> If we exclude the completely anomalous case of this current year.

Baffi's preferred tools were political persuasion and the search for consensus. He probably saw them as the most important, perhaps the only tools available with which the central bank could identify, at that historical juncture, a way out of the dead end in which it found itself for historical and political reasons. For him, explanation, economic reasoning and the consideration of the indirect effects played a central role, as well as an unremitting effort to convince economic players to reconsider their conduct.

For this reason, and despite recognising the importance and effectiveness of the monetary constitutions characterising some European countries, Baffi remained convinced that monetary stabilisation in Italy could not follow the same path. He did not think that the necessary conditions for it were in place at that time. The letter that he sent to Luciano Lama, General Secretary of the largest trade union, the CGIL, on 13 March 1976 can be read in light of this:

*The increase in the wage bill beyond the expected additional flow of real resources in 1976 (1-2 per cent) will result in a mere distribution of paper, which will not confer any effective purchasing power on its recipients: in part because any redistribution effects are bound to be minimal: they cannot come from companies, unless by destroying the already stunted accumulation process; not from agriculture or the services sector, whose revenues adjust to monetary demand; and only a little (and then unfairly) from savers, who are already affected by negative real interest rates (ASBI, Baffi Papers, Honorary Governor, Dossiers, No. 26, file 4).*

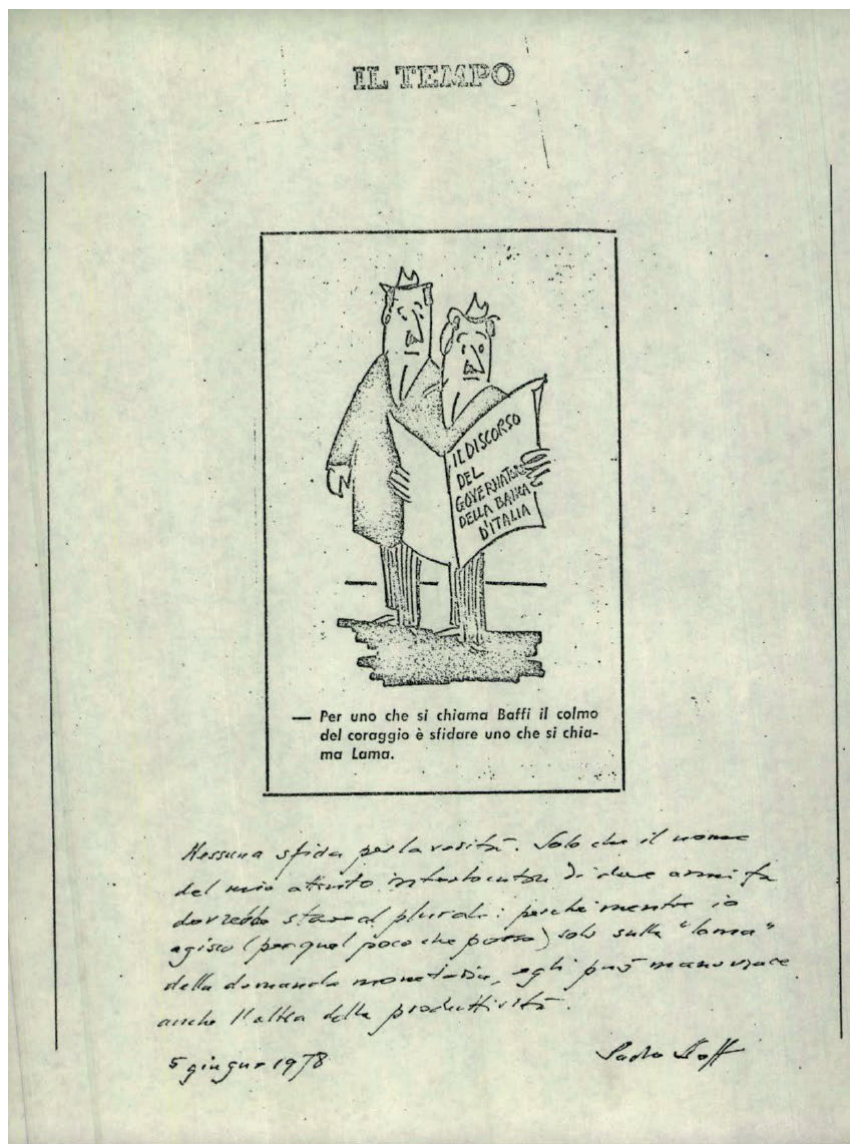
A short, more light-hearted, digression may not be out of place here. Two years later, *Il Tempo* newspaper published a cartoon depicting two men wearing a coat and a hat. The two men look worried as they read a paper running the headline: 'SPEECH BY THE GOVERNOR OF THE BANK OF ITALY'. The caption goes: 'For someone whose name is Baffi ['moustache' in Italian], it is the height of courage to take on someone named Lama ['blade']'. It was likely Baffi himself who added a photocopy of the cartoon in the file containing his correspondence with Lama two years earlier (now part of the Historical Archives of the Bank of Italy); on it, we find a handwritten note by him:

*No challenge, in truth. Only that the name of the person with whom I was debating two years ago should be in the plural ['Lame', or 'blades'] because, while I control (for what little I can) the 'blade' of money demand, he can also manoeuvre the additional 'blade' of productivity.*

*5 June 1978*

*Paolo Baffi*





Source: ASBI, Baffi Papers, Honorary Governor, dossiers, 26.0, folder 4

In this sense, there is something of a break between Baffi's approach and that of his successor. This was perhaps determined by their different intellectual backgrounds, but certainly also by the different economic and social climates of the day. While preserving a commitment to explain and persuade, Ciampi no longer believed that persuasion was the only tool available to guide the behaviour of economic agents – whether individual or collective – toward a path that was compatible with the needs of monetary stability. Though he did not explicitly subscribe to the monetarist theories and practices that were gaining prominence among central banks in those times, he attached great importance to the possibility for a central bank 'to exercise full control over monetary and financial flows' in order to expose 'the disparity between demand in money terms and real growth and between the public sector borrowing requirement and the propensity to save'.

One may say that, unlike Baffi, Ciampi believed that persuasion must be married to concrete action by the central bank in the fulfilment of its responsibilities; verbal

reasoning is not enough. This was the rationale for what became known as the ‘divorce’ between the Bank of Italy and the Treasury, which he pursued resolutely together with the Minister of the Treasury, Nino Andreatta. It was also at the root of his strong commitment to a European construction that at the time seemed to be proceeding in leaps and bounds towards the unitary ideals of its founders while, in the meantime, introducing tighter constraints on economic and monetary policy action. (As an aside, this would have not at all displeased Einaudi, who, as is shown by his numerous writings in favour of a European federation endowed with binding monetary and financial powers vis-à-vis Member States – Einaudi, 1944 – and against what he called ‘*l’idolo immondo*’, the abominable idol of the sovereign state – Einaudi, 1945). Baffi’s perspective centred around a fundamental political realism – someone might call it excessive prudence: society is complex and must be governed on the basis of an overall consensus. Baffi was well aware, let me reiterate that, of the climate back then, which persons my age will have no trouble recalling. For Ciampi, institutions and rules were not simply the formal seal on a consensus achieved through political persuasion; on the contrary, for the future President of the Republic, institutions and rules may and must be used, for their respective ends, in ways that directly influence the choices of private and public economic players.

The echo of the excerpt from Einaudi’s CF that I recalled stops with Ciampi. After Ciampi, the Bank of Italy freed itself from that ‘fate’ which had undermined its autonomy for decades and took full control of one of the two ‘blades’ which Baffi had referenced in commenting the cartoon published by *Il Tempo*. The process was ultimately completed, in the context of the adoption of the single currency and the European System of Central Banks, when Italy joined the euro. However, through the CF, in their capacity as ‘trusted, independent advisor to Parliament, the Government and the general public’ (Draghi, CF 2010), successive governors have never come to disregard the second ‘blade’. They have never stopped drawing the public’s attention to productivity and growth; the fair and efficient allocation of resources; and the risks inherent in public expenditure and debt getting out of control. These are all themes in which it is possible to detect the echo of Einaudi’s thought.

Thus, in 1980, Ciampi admonished that ‘public sector expenditure and the methods by which it has been financed have also been among the causes of the high rate of inflation’; which

*precisely because certain fundamental imbalances were corrected on a provisional basis only, with public financing, and with little regard for economic criteria, they have been perpetuated and have rooted inflation firmly in the economy (CF 1979).*

Some years later, he stated that

*for countercyclical and other purposes, economic policymakers must regain full control over the budget as soon as possible. The fiscal measures concerning the allocation of resources as*

*well as the volume and composition of aggregate demand must also be consistent with the guidelines the European Community elects to follow (CF 1987).*

Antonio Fazio, commenting on the currency crisis of 1992, observed:

*By the time of the parliamentary and presidential elections in the spring of 1992, the Italian economy was in a weakened state owing to delay in implementing economic policy measures. The management of the economy had become an urgent issue. The excessive growth in public expenditure, the wastefulness and poor quality of some services and the inefficiency of the tax system reflect the more general problems in the governance of the country and the operation of the public institutions (CF 1992).*

Mario Draghi focused on growth, to which he devoted a full chapter of his first CF, those for 2005, entitled precisely: ‘Returning to growth’:

*The cyclical recovery that is now beginning in Italy cannot by itself solve the growth problem that has afflicted the country for more than a decade, but it will facilitate the necessary structural changes.*

*If slow growth persists for long, it stifles an economy’s ability to innovate, saps the aspirations of the young and portends regression. It is especially worrying in a country such as ours, with its adverse demographic trend and high public debt.*

*Financial stability is a necessary condition for economic growth, but in Italy growth is in turn a prerequisite for financial stability. It is essential, while preserving the one, to rekindle the other (CF 2005).*

To this day, growth is our central problem. In his speeches, Governor Visco has repeatedly dwelt on the factors hindering it. The angle that Visco has often chosen to address the question has been in some ways ‘Einaudian’ (though I do not know to what extent he would recognise himself in this description). Policies must not allocate resources but rather determine the conditions, the economic and institutional environment and the available human capital that allow the aggregate behaviour of firms and consumer to result in an efficient allocation of resources and an increase in general welfare.

As early as in his CF for 2012, Visco observed that

*[t]ransferring activity from ailing to growing sectors and firms requires profound changes in employment relationships and in the education system.*

*The point is not so much to foresee which sectors and activities will attract consumption and investment demand in the decades to come, as to facilitate the transition, reduce the social costs, and capitalise on opportunities.*

*Many occupations are disappearing; in the years to come young people cannot simply count on replacing their seniors as they retire. Now is the time to establish the right conditions for the birth and growth of new enterprises and to generate new job opportunities.*

*Lifelong vocational training must be developed to cover working careers characterised by mobility and change, with workers safeguarded by reinforced safety nets and insurance systems, both public and private, during periods of inactivity. Schools and universities must*

*support this process by ensuring education of adequate quality and quantity, acting with determination to raise levels of academic achievement and develop new skills (CF 2012, p. 10).*

\* \* \*

Let me stop here.

From my predecessors at the Bank of Italy, I have inherited a unique privilege. Every time I walk into my office of Senior Deputy Governor, I sit (*Domine non sum dignus!*) at the desk that once belonged to Luigi Einaudi when he was at the helm of our institution.<sup>10</sup> The computer, or better yet, a battery of computers, have replaced the fountain pen Einaudi used to write his notes in the clear handwriting that we are familiar with, and the folders with the typed memos and official messages. But the object and the place continue to inspire respect and admiration even in those who frequent it daily as part of their job.



Portrait of Luigi Einaudi © ASBI

Einaudi's time at the Bank of Italy was brief. Technically, his tenure lasted a little more than three years: from 5 January 1945, when – with the war still under way – he was appointed to the post of governor by Marcello Soleri, the Minister of the Treasury in the Bonomi Government, to 11 May 1948, when he formally tendered his resignation on the eve of his inauguration as President of the Republic. However, he had already ceded *de facto* responsibility to his successor, the then Director General Donato

<sup>10</sup> The photograph of the desk used by Einaudi during his tenure as governor of the Bank of Italy is reproduced in Omiccioli (2008, p. 134).

Menichella, one year earlier, on 1 June 1947, that is, on taking on the role of Minister of Finance and of the Treasury (later of the Budget) and Deputy President of the Council of Ministers in the fourth De Gasperi Government. Yet, while serving as minister (as well as a deputy in the Constituent Assembly), he nominally retained the post of Governor – an accumulation of roles that would be impossible today and that even at the time was the result of an exception, justified by his unique personality and the extraordinary circumstances of the moment.

Therefore, he led the Bank for only one full fiscal year, that of 1946; it was his idea to attach to the Annual Report for that year some personal remarks in his capacity as head of the Bank, wanting to juxtapose the accounting analyses with what he called, as I have noted at the beginning of this talk, a ‘moral-economic analysis’.

I have endeavoured to document the importance of the shape given by Einaudi to the CF. In the language, in the logic, in the presentation of economic theory and of the facts that characterise his CF for 1947, one can recognise – albeit expressed in his deeply personal style – elements whose echo will reverberate in the Concluding Remarks in subsequent years. Despite the changing political and economic cycles of the last 75 years, and despite the different personalities and cultural background of the seven governors who have held the post since then, certain preoccupations (the autonomy of monetary policy, and attention to the prudent management of public finances, for example) remain constant. On certain aspects – and I have tried to provide some examples of these as well – one perceives a significant evolution.

The original impulse that guided Einaudi has never disappeared: giving full account of what was done and of what is to be done; remaining authoritative by speaking clearly.

And one finds there – if not always, certainly often – the exhortation, barely veiled by a patina of civic rhetoric, to take on a collective responsibility: from Einaudi’s ‘they must not expect the lira to be saved by any Messiah nor by any would-be thaumaturgus’ (CF for 1946) to Ciampi’s thrice-repeated ‘*sta in noi*’, ‘it is within us’ (a phrase that recurs in the CF for 1979, 1983 and 1991); and others after them.

Within the limits imposed by the occasion, I have certainly not been able to provide, starting from Einaudi, a systematic review of the issues addressed by the CF. A much longer and more intense research work would have been necessary; and the resulting product would have been something completely out of scale.

I do, however, hope that what little I have said about the CF is enough to persuade readers of the usefulness of poring over them. Anyone who does, cannot – I believe – fail to find in them some of the most interesting and remarkable points of view on the history of economics, and of economic thought, in this country.

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Francesco Ciocca, Bust of Luigi Einaudi, collection of the Bank of Italy