

Presentation of the book *Luigi Einaudi: Selected Economic Essays*

London, Italian Embassy, 17 October 2006

Address by Mario Draghi, Governor of the Bank of Italy

“Luigi Einaudi and economic freedom”

Ladies and gentlemen,

Let me thank the Ente Einaudi for the taking the initiative of having a selection of Luigi Einaudi's works translated and thus introduced to a non-Italian public. I should like to congratulate the editors – Riccardo Faucci, Luca Einaudi and Roberto Marchionatti – the translators and all other contributors for a job magnificently done.

Luigi Einaudi had a long, very active life. When he published his first essay in 1893, Giuseppe Verdi had just completed his *Falstaff*; when he died, aged 87, Federico Fellini had just shocked Italians – and possibly even Britons – with *La Dolce Vita*.

A key actor in Italian public life, he passionately believed in the interaction between Italian, European and American intellectual circles. He was friend to people like Hayek, Huizinga and Röpke; he was instrumental in getting many authors translated into Italian,

among them Beveridge, and he carried on an intense activity as a consultant of the Rockefeller Foundation, with great benefit for many young Italians who could study in British and American universities, even during the Fascist time. During three decades he was *The Economist's* correspondent from Italy, so that it was also through his eyes that politicians and business leaders of the world perceived Italian affairs.

Einaudi is certainly difficult to sum up in a phrase. He was in turn economist, historian, journalist, wine maker, bibliophile, central banker, politician, statesman. He has left literally thousands of pieces of writing. If I have to single out the one reason why he made such a profound mark on the intellectual and political history of Italy, that is his faith in a fundamental idea: man is fallible; lawmakers and planners are no less fallible than other humans; legislative and administrative commands often fail to attain their goals or have unintended consequences; man must be free to experiment, to try new solutions for old problems. He extolled “the beauty of the struggle”: between people, ideas and market players, even between social classes; individual and collective effort and competition engender progress; excessive regulation, forced collectivism and decisions from above hinder it. All institutional arrangements that foster human creativity he would praise; but when

confronted with arrangements, legal or otherwise, that block evolution, he would carefully, fastidiously analyse them, and then expose their failings. He advocated a legal system based on a few, simple laws and unbending application.

Despite his intellectual authority, he did not always, or perhaps even often, succeed in persuading legislators and policymakers in his time. For most of his life his voice was that of a respected minority. Recognition usually came later. But the lesson has only been half-learnt and the issue is almost as alive now as it was in Einaudi's time: the delusive quest for the perfect regulation and the perfect plan still goes on in much of Europe.

A professor, but not an inhabitant of the ivory tower: to the very end of his life Einaudi was extremely curious about real economic and political life. To cite just a few topics from a much more extensive list, he collected information on, and wrote in newspapers about, union demands, capital taxation, agricultural prices, steel production, monetary policy, foreign trade, bank raiders. He always made a point of linking theory with facts. He was a clear, persuasive writer. Which is not just, I believe, a gift of nature, but mostly the result of caring about the subject one writes about.

Though firm in his fundamental convictions about economic and political liberalism, he was not a doctrinaire; his position can be described as optimism, not naïveté, about the market. He often repeated that *laissez faire* is not a scientific principle, but just a convenient rule taught by experience. Certainly subsequent developments of welfare economics have made us more sensitive to externalities and to market failures than he ever was. However, he also was well aware of the importance of the legal framework and a proper regulation for the markets' well functioning. He deeply believed in equality of opportunities, and accepted a degree of income redistribution.

He observed that stumbling blocks to innovation (he called them “*trincee*”, trenches), while found everywhere, were especially plentiful in Italy: tariffs against foreign commodities, rules barring new competitors from entering established trades, laws that put obstacles in the way of new trades or commodities, cartel agreements among producers to limit competition and innovation: all to the detriment of the consumer. A recurring theme in his writings is the denunciation of private monopolies and of any attempts, by private firms, to restrict markets. However, in Italy he saw the state itself as the main source of market restrictions: the dominating positions of many firms were, more often than not, the product of

laws and regulations. In 1947, as a member of the Constituent Assembly of the new Italian Republic (of which he was to become the first full President), he proposed an anti-monopoly clause for the Constitution:

La legge non è strumento di formazione di monopoli economici; ed ove questi esistano li sottopone a pubblico controllo a mezzo di amministrazione pubblica delegata o diretta.

[The law shall not be a means to form economic monopolies, and such monopolies as may exist shall be subjected to public control through delegated or direct public administration]

His proposal was rejected on flimsy arguments, and antitrust legislation eventually came, well after Einaudi's death. But the alliance between public bodies and private interests to carve out privileges has bedevilled Italy to this day.

He applied his convictions about the power of market forces to the banking sector. In a 1935 article that is partly included in the selection, he showed his distrust for the views of a fictitious character, the "rationaliser", who wanted to regulate from above the banking industry all the way down to dictating what the number of banks should be. He also had little sympathy for the many restrictions on banks' activity (on area, sector, type of credit) which

were not to disappear in Italy until the 1990s. On banking supervision he favoured a flexible approach and disliked rigid administrative rules: “If the regulation really regulates, it only prevents the good transactions and does not prohibit the bad”, he wrote. This resonates with certain main themes in the evolution of supervisory activity in recent times.

Much impetus for market-oriented reforms in Italy eventually came from European institutions. Europe was, indeed, a recurring theme in his writings from very early days. He supported a European federation immediately after the First World War. From the columns of the *Corriere della Sera* he argued, under the pen-name “Junius”, that the League of Nations would be ineffective because it depended on the will of individual states, and advocated the creation of a federation of European nations. The articles went virtually unnoticed at the time.

In the final years of the Second World War, he started to write again on the same theme. What should a European federation do? His views were ambivalent in a way reminiscent of today’s debate. Einaudi is absolutely clear about the urgent need for “unifying some economic matters”, among these money. “Devolution to the federation of the regulation of money and money surrogates appears to be uncontroversial”, he writes. (It took a mere 45

years for this “uncontroversial” item to materialise). He goes on to list the advantages of European monetary union in terms unmistakably similar to those used in the debate on the euro that took place almost half a century later. The main virtue of a monetary union lies in its doing away with the monetary sovereignty of national states, which “boiled down often to the right to falsify money” via inflation, or hyper-inflation.

On the political aspects his views are less clear-cut. He does not want member states to renounce political independence, a step for which “our spirits are not prepared”. But following the tragic experience of war, he comes down squarely in favour of a fully unified “army, navy and air force”, and of clearly defined federal legislative and executive bodies. These are boldly integrationist views, even by today’s standards.

In 1939 Einaudi’s thoughts on Europe came to the attention of two careful readers who would later play a key role in European federalism. Ernesto Rossi and Altiero Spinelli – the first a friend and student of Einaudi’s, the second a former Communist party member – had been imprisoned by the Fascist government for 10 years, and later exiled to the tiny Mediterranean island of Ventotene. Spinelli was at once fascinated by the “Junius” articles; Rossi managed to get through to him material on the debate on federalism in England,

including works of Lionel Robbins. We may say that Einaudi contributed indirectly to the birth, in 1941, of the *Manifesto di Ventotene*, a cornerstone of the European political federalist movement.

I cannot refrain from briefly recalling Einaudi's role in ending post-war inflation and opening the way to a long period of sustained growth and stability. The monetary stabilisation of 1947 bore his mark and is an enduring legacy left by Einaudi as a policymaker. Economic historians still debate the respective roles that Einaudi himself and Donato Menichella, the then Director-General of the Bank of Italy, played in devising the stabilisation plan. Whatever the details, it is clear that Einaudi, as Governor of the Bank of Italy first, then as Budget Minister and deputy Prime Minister, took prime responsibility.

Even if he had not had any policymaking role, Luigi Einaudi would be remembered as a communicator and educator. In fact, his very success as a policymaker owes much to his clear, effective way of speaking to the general public, at a time when this was very unusual. His frank and direct style of communication, his choice of explaining, in plain language,

policy decisions in a special final chapter of the Bank's annual report, were at the time a significant advance towards greater accountability of monetary policy.

Sixty years ago Einaudi gave his last speech as the Governor of the Bank of Italy. In the new Italian democracy it was under his leadership that the Bank of Italy, already a well-respected institution, started shaping its special role in Italy, unique among central banks, a role upheld by all of Einaudi's successors: that of a trusted, independent advisor to Parliament, the Government and the public opinion.