

BANK OF ITALY

**“Luigi Einaudi: Economic Freedom and
Social Cohesion”**

Introductory address by the Governor of the Bank of Italy
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Luigi Einaudi, economist, historian, journalist, central banker, and statesman, was above all things a practical man, in both his diagnoses and his recommendations.

The erudition and the attention to detail that infused his writings – prices of single foods, alternative crop-growing methods, labour contract clauses, items in the national budget – bear witness to his practical nature. They also made his fortune as a writer. This is why one of the talks at this conference is dedicated to the language of Einaudi, his rhetoric, which shaped his image in the public opinion.

From the time when, as a young journalist, he reported on the struggle of the Biella wool workers to obtain a reduction in their working hours to the time when, as President of the Republic, he was concerned with trade liberalization, child labour, limits on internal migration, and protective measures after the flooding of the Po delta in 1951, he never ceased to ponder, with the tools of his trade and the facts to hand, Italy's problems and its resources, above all human.

In Einaudi's writings discussion of the country's problems is systematically interwoven with appreciation of its resources, so that at no time do we find him in the grip of pessimism.

In one of his earliest works, he narrates with admiration the trials and tribulations of Enrico Dell'Acqua, an entrepreneur from Busto Arsizio who overcame untold difficulties to build up a vast business exporting Italian fabrics to Latin America and later manufacturing them. "Alongside the huge tomes diagnosing the ills of our country," Einaudi remarked in the Introduction, "it is well that there should be also a small book written in a spirit of optimism and hope."¹ The year was 1900 and the majority of Italian emigrant workers were still toiling as labourers or poor settlers. Einaudi saw the possibility, which later became a reality, of Italian emigration being transformed and upgraded: through ingenuity, work and education. When the book was re-issued fifty years later, on the initiative of a large Italian company operating in Argentina, Einaudi wrote, "These are no longer the barefoot, uneducated immigrants that landed in America in search of work [...]. This is now a group of specialists, experts in the fields of industry and economics, who have demonstrated their skill at home and bring to the countries of Latin America the benefit of their experience and of the business, commercial and entrepreneurial network they have already built up in Italy."

¹ Luigi Einaudi, *Un principe mercante. Studio sulla espansione coloniale italiana*, Fratelli Bocca Editori, Turin 1900, p. 19.

Among Italy's resources Einaudi listed industriousness, initiative and emulation, demonstrated by entrepreneurs and workers alike. He admired the trade unions for their defence of workers' rights and their role as a focus of social identification where pride in a craft and desire for improvement could find expression. However, he quickly became suspicious of both unions and employers' associations when they safeguarded privileges, vested interests, and government favours.

Einaudi believed that competition – between people, ideas, market operators and social classes – generated progress. He was also aware, though, that this force, if left to itself, could slide into oligopoly or tear the fabric of society. He was not a supporter of social Darwinism. He had a high regard for the institutions, the intermediate bodies between individual and State, and emphasized their importance. His view of trade unions has been described. The same opinion applied to cooperative banking, national health insurance, and cultural or political organizations, which he thought capable of protecting people in times of crisis but also of gathering them within a realm that could, to some degree, be controlled. In his view, they were remedies for the inevitable ills of the mass society; training grounds in organization and management. Governance of the intermediate bodies was, to Einaudi's mind, the best school for the nation's ruling class.

Naturally, he would have preferred the function of social protection to be performed by spontaneous or traditional institutions – the extended family, the kitchen garden, workers' health insurance schemes – but faced with the advance of the mass society he partly accepted the concept of the welfare state that William Beveridge had helped found in the United Kingdom after World War II. With the old world gone, a State-provided old-age pension became a necessity, an essential condition for social inclusion and dignity.

Einaudi's dislike of large economic organizations, large cities, "hives of humanity", all of which he regarded as dehumanizing and alienating, should be interpreted today as an example of the importance he attributed to the issues of quality of life and the environment.

During and after the war, Einaudi championed a new cause that broke with tradition: equal points of departure, the "principle of a minimum that is the point of departure, not the point of arrival". This idea, which set him apart from many other liberal economists such as Hayek, questions the untouchable nature of the initial distribution of assets. Economists confine their technical analysis to what happens in the market for a given initial distribution, said Einaudi, but the body politic has every right to alter that initial distribution so that the rise of the best intellectual and organizational capabilities is not just a theoretical possibility but becomes reality.

Einaudi's achievements as Governor of the Bank of Italy are in part a logical consequence of these positions. The Governor appointed in wartime had the task of creating the economic conditions for peacetime growth. Together with Donato Menichella, he was a protagonist of the monetary stabilization of 1947, which symbolized the aversion to disorder and disequilibria that always characterized Einaudi the academic and Einaudi the man of action. In his view, money was one of those precious institutions that could become pernicious if used to benefit organized groups. He had blamed the monetary disorders following World War I for much of the social and political disorders that allowed Fascism to gain hold.

Monetary stability – Einaudi teaches us – is the context in which both economic freedom and social cohesion become possible.