

Europe's federation and currency: the contribution of Luigi Einaudi*

MARIO SARCINELLI

1. Introduction

The process of European unification launched with the aim of ensuring peace and stability against the demons of civil and fratricidal strife has now been under way for over half a century, leading to shared sovereignty in various areas, the currency being neither the first nor, hopefully, the last of them. Although only time will tell whether and to what an extent monetary unification has contributed to spreading the sense of identity among Europeans, endowing domestic purchasing power with stability and catalysing the full political integration of Europe, already the euro is perceived as a political turning point.¹

If requested to say who was responsible for promoting institutional linkages between the six initial members of the European Coal and Steel Community, the forerunner of the European Common Market and its later incarnations, many Europeans would cite the names of Robert Schuman, Conrad Adenauer and Alcide De Gasperi. Some of them, mostly Italians, would also cite those of Altiero Spinelli and Ernesto Rossi, who during their confinement on the islet of Ventotene as opponents of the fascist regime wrote "The Manifesto for a Free and United Europe" during the winter 1940-41, thus setting the intellectual and political basis for a federalist movement in our coun-

□ Università degli Studi di Roma "La Sapienza", Dipartimento di Scienze Economiche, Roma (Italy); e-mail: mario.sarcinelli@tiscalinet.it.

* The author thanks Prof. Mauro Marè and Dr. Pierluigi Ciocca for reading through an earlier draft of this text, and remains solely responsible for all errors, omissions and opinions.

¹ Padoa-Schioppa (2004).

try. A few may even mention Jean Monnet as the prophet of a European currency.

However, neither Spinelli and Rossi, nor Monnet were the first to raise the issues of a European federation and a single currency. Spinelli duly acknowledged in his memoirs:

“I often wondered what original element we had contributed through the Manifesto. We did not say anything new, either when we dealt with the crisis of the European civilisation, or when we advanced the idea of a federation. Others had already done it, and in a better way”.²

What I am interested in investigating in this paper are the Italian origins and convolutions of a cultural and theoretical movement revolving about the construction of a federal system in Europe, and in particular monetary unification, to remedy the shortcomings of the nation state and its propensity to resort to war as a means of self-assertion. And I intend to pursue this aim ‘vertically’, that is by analysing the evolving thought of a public figure: Luigi Einaudi, economist, opinion maker, and politician who wrote extensively throughout the first half of the 20th century on this and many other topics as well.³

In paragraph 2, Einaudi’s statements from 1897 to 1925 on federating some dimensions of Europe are reviewed. The major and most constructive contributions to the subject, made immediately after the fall of the fascist regime and during the Swiss exile, are analysed in paragraph 3. After rejecting the functional approach he had sympathised with previously, he advocated pursuing the political unification of Europe straightforwardly, as explained in paragraph 4. The concluding one recalls his memento that to avoid disappearing Europe has to unite, a political message that is still dramatically valid today.

2. Federalism as a check on the ‘myth of absolute sovereignty’

All I can hope to do in an article⁴ is just to outline the development of his thought on the need for Europe to arrive at a federal system and

² Spinelli (1984, p. 311).

³ For an extensive biography see Faucci (1986).

⁴ An earlier version of this paper was favourably commented upon by Quadrio Curzio (2004).

the various models he considered. Suffice it to recall that the seminal ideas of a United States of Europe date back to 1897, when the six major powers resolved upon the bombardment of Crete – an event viewed favourably by the American editor of the *Review of Reviews*, W.T. Stead, and summed up by Einaudi with the words:

“[...] the birth of the European Federation will be none the less glorious simply for owing its origin to fear and mutual mistrust rather than fraternal love and humanitarian ideals”.⁵

A cornerstone of his political thinking was the conviction that it was the myth of absolute sovereignty that led to wars. In the aftermath of the First World War he wrote:

“[...] above all else the need is to wipe out the ideas that generated war. Of the ideas that breed evils if taken to their ultimate conclusions it is the dogma of sovereignty, *absolute and perfect in itself*, that is the most direful. [.../...] Which cannot politically and militarily be so if it be not also such in economic terms. The state closed to trading is not only an ideological abstraction of the philosopher Fichte. It must become a reality, if the state [...] is to be truly sovereign and independent [.../...]. The need is to eliminate once and for all the dogma of perfect sovereignty, if we wish to see the League of Nations born viable. This can and must be done, because it is false, unreal, a product of abstract reasoning. The reality is the constraint, not the sovereignty of nations. The reality is the interdependence of free peoples, not their absolute independence”.⁶

Could not the League of Nations, discussion of which had been prompted by President Wilson, be a means to fight if not eradicate the primary cause of war, the dogma of absolute sovereignty? Einaudi's answer was initially totally negative; taking the example of the 1787 constitution of the United States, which subjected the financing of expenditure passed by the national congress to the approval of the confederated states, he could only concur with Alexander Hamilton's trenchant conclusion that power, without the right to levy taxes in political societies, is tantamount to a *flatus vocis*, for which it is useless to fight.⁷ He returned to the need for revenues that did not depend on

⁵ Einaudi (1897, pp. 601-02).

⁶ Junius (1918b, pp. 25-27).

⁷ Junius (1918a, p. 16).

the will of members of an international organisation a year later, pointing out:

“In some cases the income is provided by the service itself, as in the case of mail, canals and rivers, etc., but in others it is not, as in the case of tasks of international policing”.⁸

In the terms we are more familiar with today, we can say that Einaudi did not favour intergovernmental collaboration in the sense of a system of international relations depending essentially on common interests and thus doomed to slacken or fall away when the interests change or one of the participants turns to an opportunistic approach; his preference went to the creation of constraints, nation states foregoing sovereignty in favour of a ‘super-state’ endowed with full financial autonomy, including taxation.

Was this, then, what federation, pure and simple, was to mean, just like the federation introduced in the United States with the 1787 Constitution, and in Switzerland after the Sonderbund Rebellion, systems often cited by Einaudi, or was it to mean passing specific tasks to a superordinate body responsible for their execution? The former alternative was pioneered by a great industrialist and an excellent economist: Giovanni Agnelli and Attilio Cabiati, who took upon themselves the task of demonstrating

“*i*) that the principle of nationality is of solely historical value, marking a stage in transition from absolutist to liberal theory; *ii*) that, like all transitional concepts, it appears unfit to solve certain fundamental problems and lays the field open to dangerous forms of degeneration; *iii*) that the federative principle is the only one able to finally reconcile the aspirations of nationality with the supreme needs of the state in a liberal system”.⁹

Coming to the crux of the matter – to the question: “League of Nations or federal Europe?” – our author answered thus:

“We have no hesitation in holding the opinion that, if we actually wish to make war a phenomenon that can never be repeated in Europe, there is only one way open to us, and we must frankly face up to it: a federation of European states under a central power con-

⁸ Einaudi (1919a, p. 188).

⁹ Agnelli e Cabiati (1918, p. 9).

trolling and governing them. Anything falling short of this is an idle plaything".¹⁰

Thus the central or federal government should enjoy full powers in the areas of: "i) foreign policy; ii) the armed forces of land and sea; iii) federal finances, or collection of the means needed to function; iv) customs policy".¹¹ Although the viewpoints taken by Einaudi on the one hand and Agnelli and Cabiati on the other clearly had much in common, Einaudi criticised the latter two, explaining:

"I fear that at the present moment the 'Federal European State' foreseen by the authors is both too much and too little. Too much if we consider the profound national differences dividing one country of Europe from another [...] a federal Europe can only be conceived of as being constituted by peoples driven in that direction by common interests, feelings, traditions, will and goals to pursue [...]. At the same time, a federal Europe is too little. Are we to include England in it? If so, we should not be speaking of a 'Federal Europe', but rather of a great federal state on a worldwide scale, including the commonwealth of British nations and the European nations together with their colonies".¹²

Einaudi realised, therefore, that to ensure success over the long period an equitable redesign of the European order in the aftermath of the First World War was needed, but the conditions were not there; common interests, aims and ideals were wanting.¹³ Having also abandoned such far-fetched ideas as ethnic unions (Latin, Germanic, Slav and Anglo-Saxon), which had led him as far as to contemplate the need to reconstitute the Western Roman Empire,¹⁴ Einaudi firmly embraced the functionalist approach, asserting "the need for supranational governments limited for the time being to what might be termed 'things'".¹⁵

¹⁰ *Ibid.* (p. 53).

¹¹ *Ibid.* (p. 87).

¹² Einaudi (1918, pp. 200-01).

¹³ The Machiavellian approach of 1897 to the process of European unification gave way to a liberal, democratic vision based on the will and ideal aspirations of peoples.

¹⁴ Einaudi (1920, p. 237).

¹⁵ Einaudi (1921, p. 7).

"The most reasonable meaning one can attribute to the expression 'government of things and not government of men' is", he wrote, "that which lies in the attempt to separate the type of State activities directly or indirectly addressing men and women from those applying 'principally' to material things and inanimate objects. [.../...] Choice among the best and most economical ways of harnessing [waters], reforestation and tree cutting is a technical problem where human interests and passions still have a certain part to play, but only a minor part. Here it is truly a matter of governing 'things' [...]. And governing these 'things' is clearly far more simple a matter than governing 'men and women'. All that is needed is technical skill, special understanding acquired in the schools, from books or experience, and a sufficient degree of administrative honesty; and what is called sound 'organisation' can achieve great things. To govern 'men', however, all these qualities and more are required, including political flair, response to feelings and passions, capacity for enthusiasm, coolness in calculation, the art of speech and the virtue of silence, understanding of the great historical issues, profound culture and the ability to place appropriate emphasis on the various economic, sentimental, religious and patriotic aspects of the great human problem".¹⁶

For the government of things a useful mission could be contemplated for the League of Nations then under formation, which, given the changed international climate, Einaudi followed with sympathy¹⁷ until 1925;¹⁸ some experience of the limited supranational authorities model had already been acquired with the European Danube Commission created in 1856 with an international treaty to guarantee and facilitate navigation in the lower stretches of the river. As Morelli, a scholar specialised in Einaudi and his federalism, wrote:

"The functionalistic model, curiously close to the one Monnet was to adopt for the creation of the European community, found clear delineation: delegation of sovereignty in certain technical sectors to supranational bodies to organise the management of common problems; over time these unions, initially entrusted with the 'government of things', would grow from strength to strength, extending jurisdiction eventually to form the super-state and to cover the

¹⁶ Einaudi (1919b, pp. 219-20).

¹⁷ Einaudi (1965-66, vols. VII and VIII).

¹⁸ In that year, with free press at an end, he ceased collaboration with the *Corriere della Sera*.

'government of men'. [.../...] this means instituting specific international unions for customs, colonies, railways, rivers, currency and the straits much like those already existing for post, telegraph and the protection of literary and industrial property".¹⁹

It is worth noting that, among the supranational bodies limited to specific functions he wished to see emerging, Einaudi made explicit reference to "a common office for the repression of international tax evasion and the formulation of regulations to prevent double and triple taxation".²⁰ Even now the OECD and, above all, the European Union have yet to come to a working agreement to fight tax evasion ...

3. Economic, monetary and defence foundations of a federation

Writing in an American periodical in 1940, in an attempt to account for the new outbreak of conflict in Europe, Einaudi once again advanced the thesis that worldwide interdependence had brought crisis upon the sovereign nation state. As Morelli summed it up:

"This, like the previous war, is a clash between two different ideals of life; like all the wars of religion, it can only end in the total defeat of one of the combatants. The victor will find two paths lying open: either to unite Europe on the model of the Napoleonic, or, better, Roman Empire [...]. Or to unite Europe on the model of the United States, in other words on a federal plan: this is the longer and more arduous enterprise, and rests on the trust the victor places in self-government and on respect for dissidents".²¹

With the fascist regime in ruins, the allies set on the road to victory, and the idea of a European federation coming into circulation in Italy, too, thanks largely to Spinelli and Rossi, Einaudi published in September 1943, less than two months after the collapse of fascism, his first thorough study in the interpretation of war and the federalist cure, clearly taking inspiration from the examples offered by the United States and Switzerland, and eventually embracing the thesis of

¹⁹ Morelli (1999, p. 80).

²⁰ Einaudi (1919b, p. 225).

²¹ Morelli (1990, pp. 97-98).

Agnelli and Cabiati which he had criticised in the aftermath of the First World War.

Command economy, with politics superimposed on the economy itself, had been the first error; in this respect he wrote:

“[...] whereas in the 19th century the idea prevailed that the individual consumers themselves should decide whether and which goods to consume and the producers whether and which goods to produce, and that trade should take place on the basis of the decisions of those concerned, in the 20th century [it seemed] that the contrary idea should prevail, and that production should be directed to achieve the ends pursued by the state, the defender of the public interest, and that consumers should retain that limited faculty of choice compatible with the public interest thus defined by the state”.²²

The commingling of politics and economy not only generates equivocation between public and private interest, but also shifts market competition from private individuals to states.

Such a system is natural enough in regimes based on the spirit of domination and power, but in a world growing ever smaller thanks to increasingly rapid communication and transport it is to be fought by citizens who want to be and to feel free. According to Einaudi, the solution lies in separation and reciprocal independence between economy and politics through a federal structure guaranteeing free, full use of the factors of production to all the citizens alike. With the dissemination of power and dispersion of sovereignty over various levels the causes of conflict can be removed. Thus he indicated delegation, or more precisely the transference of sovereignty by the member states, as the way to form the federal jurisdictions. Foremost among these was the regulation of trade, to be kept free from all discrimination within the area of the common market, allowing at the most a period of ten years to achieve a thoroughgoing free trade system.

The other areas for devolution to the federation were transport and migration within the frontiers, or in other words freedom of movement for all individuals, issue of paper currency and monetary policy, regulation of the post, telegraph and telephone services, and regulations for patents, weights and measures, and contagious diseases, to prevent the risk that “pretexts invoking health, inventors’ privileges

²² Einaudi (1950, p. 39).

and such like reduce the efficacy of a single area open to the free activity of people".²³ All other competences were to remain with the states, although the list of those transferred to the federation might grow over time. Although the aims of federation were solely in the economic sphere, a common army was seen as indispensable "to defend the federal territory against attack from outside and prevent war between the member states",²⁴ and this raised certain problems of consistency between the military sphere and the other, essentially economic competences at the federal level.

The framework was completed with indication of the constitutional organs on the Swiss and American model, and above all a list of the resources available. Four possible sources were envisaged: customs, excise duties on internal products, fiscal monopolies and revenues deriving from services performed or controlled by the federation, such as the postal services. In other words, the aim was to deprive member states of the power to levy indirect taxes as being

"apt to recreate those discriminations or differences in treatment between the goods of one country and those of another which the federation is called upon as one of its major tasks to eliminate".²⁵

It is indeed hard for such an approach to triumph in the European Union with the rule of unanimity still applying in this area ...

While a refugee in the Swiss Confederation in 1944, Einaudi returned to the economic tasks of a federation. He began by pointing out the need for them to be

"closely defined in the document constituting the federation, or in other words defined in such a way that the federal authority is only empowered to attend to the tasks included in the list, all the others not listed remaining under the jurisdiction of the individual federated states. Thus, to allay suspicions and fears of broad currents of opinion or powerful sets of interests, it is expedient to reduce the number of tasks assigned to the federation from the outset to the absolute minimum necessary. Over time, with the advantages of experience and increasing consensus among the peoples, the list of tasks may be extended [...]. In the meantime, it is better for the ini-

²³ *Ibid.* (pp. 54-55).

²⁴ *Ibid.* (p. 56).

²⁵ *Ibid.* (p. 61).

tial experience to go no further than those tasks which, left unfulfilled, would render the federation practically non-existent".²⁶

Possibly with the memory resurfacing of the distinction between government of things and of people made in the aftermath of the First World War, Einaudi began to list the tasks – several of a technical nature – either already internationalised, or which should have been internationalised, the latter category – including mail, telegraph, telephone and regulation of all forms of transport – clearly demonstrating, he argued, the anachronism represented by small individual states still in existence. Before addressing assignment to the federal authority of jurisdiction regarding the single market (federal regulation of things and persons, and outlawing of obstacles to interstate trade), customs union (trade with foreign countries) and own resources (customs and excise duties; federal tax on total net income²⁷), Einaudi addressed the devolution of monetary sovereignty.

"The present disorder in the monetary units in all the countries of the world, difficulties for trade deriving from uncertainty over exchange rates from one country to another and, more, the impossibility of exchanging one currency against another have made it amply clear to all the advantage to be gained from adopting a single monetary unit throughout the entire federation".²⁸

He then dwelt on the possibility of return to or final abandonment of the gold standard, and went on to make specific reference to the right of the federation to

"institute a single, central bank or bank responsible for the issue of currency [...]. In other words, the right of individual states to issue their own currency with its own denomination, weights and standards and to institute central banks with independent rights of currency issue would be abolished. It would only be allowed for the central bank or mint, possibly operating through local branches, to coin money with different impressions for each country but with uniform denomination, weight and standard [...] and all should be mutually exchangeable with no obstacle".²⁹

²⁶ Einaudi (1944, pp. 35-36).

²⁷ The latter tax was not mentioned in *Per una federazione economica europea* in the preceding year.

²⁸ *Ibid.* (p. 38).

²⁹ *Ibid.* (pp. 38-39).

As from the first day of 2002, with the introduction of the euro currency these precepts of Einaudi have become reality, and all residents or visitors in Euroland must accept and may freely spend the coins, even though they bear on the reverse the impression of a different member country than the one where payment is made.

The advantage of transferring monetary sovereignty would not only be improved efficiency in interstate payments and transactions, which, great as it may be,

“would be small in comparison with another, far greater advantage [...]. If one only recalls the abuse many states have made and make of the right to mint money there can be no doubt about the urgency of taking such a right out of their hands. Basically, it has been reduced to the right to forge money [...] which means levying the worst of taxes on the people, worst because unnoticed, weighing far more on the poor than on the rich, leading to the enrichment of the few and the impoverishment of the many, breeding discontent for every class against every other class and social disorder. [...] If the European federation deprives the individual federated states of the possibility of tackling public works by grinding out banknotes and forces them to use only taxes and voluntary loans for the purpose, this in itself will be a mighty achievement”³⁰

The anti-inflationary mandate which the Treaty of Maastricht and charter entrust to the ECB seems to be perfectly in line with Einaudi's thought, even though he gives no precise indication of the objectives to pursue. But then again, during the great depression, discussing the ideas of Keynes in *A Tract on Monetary Reform* and, above all, in *The Means to Prosperity*, he explicitly stated his aversion to the use of inflation as a way out of the crisis, and indeed also to deflation.³¹ As rightly pointed out by Francesco Forte, who has studied in depth Einaudi's reactions to the developments in Keynes's thought, there is a

“theme of ‘monetary constraint’ that we find in Einaudi, and which places him in line with the modern monetarist school with respect to the control framework of the economic conditions

³⁰ *Ibid.* (pp. 39-40).

³¹ Einaudi (1933, pp. 129-42).

through the sequence of ‘quantity of money – productive capacity available – prices’”.^{32,33}

There is, however, no trace of a ‘monetary rule’ in Einaudi’s text on the economic tasks of federation: the federal structure itself, by reducing the probability of war or violent social uprising also limits the opportunities and pressure to play foul with the monetary unit. In this connection he added:

“The ample publicity given to the debates in the federal assemblies, contrast in regional interests and watchful control by the representatives of the individual states all contribute to the same result”.³⁴

Nevertheless, apprehensive lest the active monetary policy advocated by Keynes might be adduced to argue against transference of monetary sovereignty, he was quick to concur with Lionel Robbins that “there is no need for federalists to take a position on such delicate and difficult matters”.³⁵ And he added

“If [...] it should be the task of the federal authority to regulate monetary matters, then the authority itself could in particularly serious cases deliberate to issue special circulating currency or to extend opening of credit by the central issuing bank only in the country where such a method should appear opportune, and could in this case set particular rates of exchange between the currency whose circulation is restricted to one country alone and the notes enjoying federal circulation”.³⁶

Actually, this reservation – even if only made for the record – is so far-reaching as to destroy the advantages of efficiency deriving from monetary union, while reintroducing exchange rate and market within the federation. For the liberal Einaudi the defence of purchasing power and the fight against debasing the monetary unit find solution at the level of the federation, and thus still with the state holding the monopoly of currency supply. This is a realistic enough position if we compare it with the approach of another representative of the liberal thought a few decades later, Friedrich von Hayek, who advo-

³² Forte (1982, p. 45).

³³ See also Marchionatti (2000, pp. 379-415).

³⁴ Einaudi (1944, p. 40).

³⁵ *Ibid.* (p. 41).

³⁶ *Ivi.*

cated as a way of eradicating inflation taking the currency out of the hands of the state and entrusting supply to a market of competing issuers.³⁷

Einaudi expected federation, even if limited to economic objectives, to limit risks of war owing to fewer trouble spots or countries in a position to wage war, together with the poor chances any aggressor might have against political aggregations of great proportions and a scater propensity for war among peoples of different languages, races and traditions that have entered into federation. Nonetheless, as in the aftermath of the First World War he again insisted on the vital need to put paid to the dogma of absolute sovereignty for the state:

“This disastrous dogma breeds nationalistic exclusiveness, the errors of autarky, and the claims of the ruling classes in every country to unlimited power over the lives and property of the citizens [...]”³⁸

Basically, as a liberal Einaudi felt that apotheosis of the state was the real cause of many of the aberrations that plagued the 20th century and had found origin or justification in certain philosophical lucubrations of the preceding century. With Rousseau the infallibility of the ‘general will’, deriving from the total alienation of each individual, together with all his rights in favour of the community, was turning the assumption of individualism – the concurrence, that is, of the individual interest with that of the community, as in Adam Smith – upside down; consequently, it was the interest of the state, through the general will, that was called upon to ensure correspondence between state and individual. But it was Hegel who elevated the state to absolute supremacy, asserting its role as the means for God to enter the world, so that the power of reason comes to fruition as will.

How is the dogma of absolute sovereignty to be overcome? It seems to me that Einaudi relies on two means or conditions: on the one hand, the freedom of the individual, in the full sense of freedom of spirit and of thought, and on the other hand the dispersion of sovereign power through the federative principle. He wrote:

“The historical conception of economic liberalism has it that freedom cannot live in an economic society that cannot show a rich

³⁷ von Hayek (1976).

³⁸ *Ibid.* (p. 95).

and varied blossoming of human lives, living by their own virtue, independent of one another, not slaves to a single will [...] a free spirit creates an economy attuned to it, and cannot, therefore, create an economy [...] subjected to an idea, [...] imposed by some will, [...] intolerant of any other will".³⁹

Sharing sovereignty means dispersing power; thus, applied among states, the federative principle reduces the risks of war, and from it "descend all the other qualities of the perfect sovereign state";⁴⁰ introduced within a single state it helps form the political class, which

"is not formed by itself, nor created by the fiat of a general election, but develops gradually from below; [.../...] nevertheless, it cannot be formed if those elected to administrate municipal, provincial or regional affairs are not wholly responsible for their actions. If someone else has the power to give them orders or annul their operations, the elected are not responsible and do not learn to administrate".⁴¹

According to Einaudi, the opponents of federalism criticise it fearing that it will lead to the disappearance or at least waning of national (or local) cultures, "all cultural movements focussing on those places where economic movement is concentrated".⁴² In the first place, he points out that "the European federation means division of labour, and not economic concentration",⁴³ although specialisation may bring certain industries to concentrate in particular geographical areas, adding:

"If we look at the existing federated countries we find no evidence of such concentration. [.../...] It is war, not peace, that favours artificial concentrations and monopolies. Guaranteeing peace, federation provides all regions, or rather their inhabitants, with the means to make the best of their aptitudes. [/] The existing federations show no signs of any tendency to concentrate intellectual and spiritual life in a few limited areas, abandoning the others".⁴⁴

³⁹ Einaudi (1931, p. 217).

⁴⁰ Junius (1918b, p. 24).

⁴¹ Junius (1944, p. 54).

⁴² Einaudi (1944, p. 116).

⁴³ *Ivi.*

⁴⁴ *Ibid.* (pp. 117 and 118).

On the contrary:

"The danger of concentrating culture in one place alone arises in the more highly centralised countries [...] where life flows from one political centre to the periphery, from above to below. Federation, on the other hand, means freeing states of the centralising functions: national defence, currency and communications. [...] Let us free the states of their centralising tasks, placing them in the hands of technical federal bodies, as far as possible devoid of outward splendour; let us have them performed by military and economic technicians, and we will thus see the moral and spiritual status of the individual states not weakened but enhanced [.../...]. The foundations of federation are indeed economic; it is the necessary result of the modern conditions of life that have unified the world from the economic point of view, transforming it into one market".⁴⁵

This seems practically to foreshadow our highly topical debate on the globalisation of markets, the annihilation of space and time through technology, and the need for some form of government at the supra-national or even worldwide level.

"Spiritually," he adds, "it [federation] actually has the contrary aim, which is to free man from the need to rise to defend in arms his own small territory against the danger of enemy attack, allowing him the hope of exploiting the resources of his small piece of land to the full and thus taking part in life universally".⁴⁶

Actually, it is a rather odd federation that Einaudi contemplated, not only designed to serve economic ends by extending the area in which trade could be conducted without any governmental obstruction – indeed, having the institutional defender of free trade in the federal authorities themselves – but also aiming at guaranteeing stability for this equilibrium with the centralisation of external defence. It is a somewhat static vision that does not take in foreign policy, even at the commercial level, nor economic policy – terms that Einaudi never uses in this context. While the functionalist framework characterising Einaudi's thought in the aftermath of the First World War now appears superseded, the technocratic approach he took during the Sec-

⁴⁵ *Ibid.* (pp. 119 and 120).

⁴⁶ *Ibid.* (p. 120).

ond World War sought to separate economics from politics, entrusting the former to experts not eager for publicity while leaving the limelight for the politicians of the member countries.⁴⁷

4. Einaudi's thoughts on federation continued to evolve

Cressati, a student of Einaudi's liberal federalism, wrote:

"His relations with [Ernesto] Rossi are decisive for an understanding of how Einaudi's federalism developed and to reconstruct his commitment to European federation in the post-war years".⁴⁸

At the same time, decisive both for Rossi and for Spinelli had been their "knowledge of the letters of Junius of 1918, which may rightly be seen as one of the direct sources of the Ventotene Manifesto".⁴⁹ I shall not dwell here on the position Einaudi took on some hot issues, both foreign and domestic, in the second half of the '40s, but just mention that he managed to plead for the federation when writing in favour of subscribing to the Charter of the United Nations in San Francisco,⁵⁰ when speaking in front of the Constituent Assembly for approval of the Peace Treaty,⁵¹ when taking position on the controversy over the atom bomb⁵² and peace.⁵³

In 1950 Einaudi wrote a memorandum on the Schuman Plan, recommending that, in order for the coal and steel authority to function well, decisions should be made on a majority basis and orders transmitted directly to the economic agents, without waiting for the approval of the member countries. It was after the signing of the aborted defence treaty of the European Community, on 27 May 1952, that

⁴⁷ Morelli (1990, p. 106).

⁴⁸ Cressati (1992, p. 62).

⁴⁹ *Ibid.* (p. 66).

⁵⁰ Einaudi (1945, p.1).

⁵¹ Einaudi (1947, pp. 121-33).

⁵² Einaudi (1948a, pp. 634-38).

⁵³ Einaudi (1948b, pp. 135-41).

“urged by Ernesto Rossi, Einaudi wrote *Punti fermi federalisti*⁵⁴ (Federalist strong points), among the last but also the most thorough of Einaudi’s writings on federalism and European integration [...]”⁵⁵

Seeking to give final form to his thinking on the issues of federation, Einaudi began this text by making exemplary distinction between confederation and federation. The former,

“lacking means of its own, is at the mercy of the states forming it. It is something much like an alliance, which can be undone by unenthusiastic, absent or treacherous allies. It may have the words ‘united nations’ or ‘league of nations’ in its title, but it is never a union of *nations*, but rather a union or league or alliance of *states*, equal to one another and enjoying full sovereignty”⁵⁶

Of the latter he wrote:

“True federation does not exist if the states uniting do not forego part of the sovereignty, transferring it to the new federal body. They may forego little or much of their sovereignty. Usually, when – as is the case with the European federation under formation – the sovereign states exist first, and the federation is formed later, the understanding is that the federation acquires sovereign powers only in respect of those tasks or matters which were *explicitly* transferred to the federation [...]”⁵⁷

He then went on to consider the various examples of functional federation, from the International Red Cross to the international unions for postal services, the defence of industrial property, trademarks and copyright – subjects he had often discussed approvingly in the aftermath of the First World War – to more recent examples like the International Monetary Fund, the European Coal and Steel Community and the European Defence Community, then under discussion.

“We should not speak ill”, he wrote, “of efforts of undoubted good will – on one condition: that those efforts suffice not unto them-

⁵⁴ Veterano (1952, pp. 62-84).

⁵⁵ Morelli (1999, p. 93).

⁵⁶ Einaudi (1956a, p. 63).

⁵⁷ *Ivi.*

selves, but assume and imply transition to political federation by a reasonably close date. The function of the old international unions – Red Cross, literary or industrial property, mail – was technical, not pertaining to the fundamental tasks of the state [...]. The new unions are quite a different matter: [...] they play a vital part in the life of every nation. [.../...] Thus the idea of functional federation is a product of mental confusion. [...] For all logical and practical purposes, accepting the idea of a common army means taking it to its ultimate conclusion and accepting the idea of ‘political federation’.”⁵⁸

His conversion in this respect emerges still more distinctly as he goes on to write:

“It is a gross error to say that from the initial and easiest economic aspect progress then goes on to the more difficult political outcome. In reality it is quite the contrary. The need is to start from the political level to achieve the economic result. [.../...] The common market will then arrive once federation is implemented. Necessarily, [...] the common army will need a common budget, common taxes, and a common parliament able to define the common taxes. Internal customs will wither away [...]”.⁵⁹

Actually, such a sequence of events is more readily favoured, as Einaudi put it, making use of the “sword of Satan” rather than “that of God”⁶⁰...

The end of the Second World War saw Einaudi moving on from the functionalist framework to a technocratic vision, with the military and economic experts quietly getting on with the jobs entailing centralisation in decision-making and unity in command, while the politicians of the member states dedicated themselves to matters he held to be crucially important: justice, security, education, family relations, protection of the weaker citizens, etc. The influence of the federalist movement, which he fully subscribed to, and possibly also his experience as central bank Governor, Budget minister and Deputy prime minister, finally President of the Italian Republic, convinced him that the way to economic ends started from politics, even though economic or military unions were provisionally acceptable provided that

⁵⁸ *Ibid.* (pp. 65 and 67).

⁵⁹ *Ibid.* (pp. 68 and 70).

⁶⁰ Einaudi (1947, p. 125).

they were paving the way to political federation.⁶¹ Thus the federalising strategy was reversed: the sectoral approach gave way to the general approach, and politics regained its supremacy over economics.

Einaudi's research was of an essentially theoretical nature, investigating the relations between liberalism and the type of political organisation that gave human energies full play not only in the economic field, but also in the cultural and spiritual sphere. Federation entailing the sharing of sovereignty among the federated states not only put an end to state interference in the economy, or at least greatly reduced it, but also enhanced competition and supply capacity through territorial extension and the elimination of internal customs; above all, it reduced the risk of war with states outside the federation and ruled out recourse to it as a means of settling disputes between members. Theoretical as his research was, it was not addressed to academia, but to the man in the street, through journals and pamphlets, serving to educate him and, above all, to set him thinking. It was in fact precisely because almost all appeared in Italian that they remained, I presume, largely unknown outside Italy.⁶²

5. Need to grasp momentary opportunities

In conclusion, in the light of Einaudi's thought and the course it took we can interpret the historical experience of the European continent in the second half of the 20th century, which saw confrontation between two approaches to integration.

“According to the first, *minimalist* approach applied in the creation of EFTA, only the *negative-type economic* integration was to be seen. With this approach economic integration was an end in itself with its own *raison d'être*, separate from political integration: the former, requiring only a reasonable degree of intergovernmental

⁶¹ The history of European unification has so far demonstrated the fruitfulness of the functional and technocratic methods, although they have at times ultimately slowed down progress towards political unification rather than speeding it up.

⁶² Although Einaudi was for almost forty years *The Economist's* correspondent from Italy, none of the 295 articles attributed to him dealt with the issues of federalism in Europe. See Einaudi (2000).

collaboration, could amply be implemented without implying the latter. In this conception it was the market that acted as the driving force of integration: national positions drew more closely together through the action of competition, and not by establishing a *starting point* consisting of common institutions. The second approach – [...] which found fulfilment in the construction of the EEC – had integration calling for explicit political and institutional structures; [...] advances in the economic field implied at least expectations of progress at the political level”.⁶³

In the historical experience of Europe’s economic communities, the Single European Act, the EMS, the Economic and Monetary Union, the second and third pillars established with the Maastricht agreement, we can make out – variously combined – the approaches upheld by Einaudi in the first half of the last century, from functionalism to technocracy and on to the priority and supremacy of politics. After the failure experienced by the European Council in December 2003 seeking consensus on a method of voting in the future Union of 25 other than the system ratified in Nice, the text produced by the convention engaged on the constitutionalisation of the treaties is in a limbo. It represents a step forward – albeit somewhat timid and far from conclusive – in the direction of the federative design. Nevertheless, voices have been raised in Italy against the European ‘super-state’ advocated and fervently desired by Einaudi; strange to say, such opinions were uttered by politicians who want to transform the Italian Republic from a unitary into a federal state. As regards Europe, we should not forget his final word of warning:

“In the life of nations the error of failing to grasp momentary opportunities is usually irreparable. The need to unite Europe [which has been enlarged to 25 members] is evident. [...] The problem does not lie between independence and union; it lies between existing united or disappearing”.⁶⁴

⁶³ Marè e Sarcinelli (1998, p. 29).

⁶⁴ Einaudi (1956c, p. 89).

REFERENCES

- AGNELLI G. and A. CABIATI (1918), *Federazione Europea o Lega delle Nazioni*, Fratelli Bocca, Torino; reprinted and here cited from Edizioni Studio Tesi, Pordenone, 1995.
- CRESSATI C. (1992), *L'Europa necessaria: il federalismo liberale di Luigi Einaudi*, Giapichelli, Torino.
- EINAUDI L. (1897), "Un sacerdote della stampa e gli Stati Uniti d'Europa", *La Stampa*, 20 August, partially reprinted in Einaudi 1955, pp. 601-02.
- EINAUDI L. (1918), "Federazione Europea o Società delle Nazioni?", *La Riforma Sociale*, novembre-dicembre, reprinted and here cited from Einaudi 1921, pp. 195-203.
- EINAUDI L. (1919a), "Il problema finanziario della Società delle Nazioni", *L'Unità*, 18 gennaio, reprinted and here cited from Einaudi 1921, pp. 187-94.
- EINAUDI L. (1919b), "La Società delle Nazioni e il governo delle cose", *Minerva*, 1° aprile, reprinted and here cited from Einaudi 1921, pp. 219-27.
- EINAUDI L. (1920), "Popoli dominatori e popoli oppressi", *Minerva*, 16 gennaio, reprinted and here cited from Einaudi 1921, pp. 229-37.
- EINAUDI L. (1921), *Gli ideali di un economista*, La Voce, Firenze.
- EINAUDI L. (1931), "Liberismo e liberalismo", *La riforma sociale*, marzo-aprile, reprinted and here cited from Einaudi 1955, pp. 207-18.
- EINAUDI L. (1933), "Il mio piano non è quello di Keynes", *La riforma sociale*, pp. 129-42.
- EINAUDI L. (1944), *I problemi economici della federazione europea*, Nuove edizioni di Capolago, Lugano, reprinted and here cited from Einaudi 1948c, pp. 35-120.
- EINAUDI L. (1945), "Il problema della pace", *Risorgimento liberale*, 4 luglio, p. 1.
- EINAUDI L. (1947), "La guerra e l'unità europea", speech delivered in the session of 29 July, in Einaudi 1948c, pp. 121-33.
- EINAUDI L. (1948a), "Chi vuole la bomba atomica?", *Corriere della Sera*, 28 marzo, reprinted and here cited from Einaudi 1955, pp. 634-38.
- EINAUDI L. (1948b), "Chi vuole la pace?", *Corriere della Sera*, 4 aprile, reprinted and here cited from Einaudi 1948c, pp. 135-41.
- EINAUDI L. (1948c), *La guerra e l'unità europea*, Edizioni di Comunità, Milano.
- EINAUDI L. (1950), "Per una federazione economica europea", in *La guerra e l'unità europea*, 2nd edition, Edizioni di Comunità, Milano, pp. 35-78.
- EINAUDI L. (1955), *Il buongoverno*, a cura di E. Rossi, Laterza, Bari.
- EINAUDI L. (1956a), *Lo scrittoio del Presidente*, Giulio Einaudi Editore, Torino.
- EINAUDI L. (1956b), "Tipi e connotati della federazione: discorrendo di Comunità europea di difesa", in Einaudi 1956a, pp. 62-84.
- EINAUDI L. (1956c), "Sul tempo della ratifica della C.E.D.", 1° marzo 1954, in Einaudi 1956a, p. 89.

- EINAUDI L. (1965-66), *Cronache economiche e politiche di un trentennio*, 8 volumes, Giulio Einaudi Editore, Torino.
- EINAUDI L. (2000), *From our Italian Correspondent. Luigi Einaudi's Articles in The Economist, 1908-1946*, a cura di R. Marchionatti, Leo S. Olschki Editore, Firenze, 2 volumes.
- FAUCCI R. (1986), *Luigi Einaudi*, UTET, Torino.
- FORTE F. (1982), *Luigi Einaudi: il mercato e il buongoverno*, Giulio Einaudi Editore, Torino.
- JUNIUS (1918a), "La Società delle Nazioni è un ideale possibile?", *Corriere della Sera*, 5 gennaio, reprinted on various occasions and here cited from Einaudi 1948c, pp. 11-22.
- JUNIUS (1918b), "Il dogma della sovranità e l'idea della Società delle Nazioni", *Corriere della Sera*, 28 dicembre, reprinted in various contexts and here cited from Einaudi 1948c, pp. 23-33.
- JUNIUS (1944), "Via il prefetto!", in *L'Italia e il secondo risorgimento*, supplement to the *Gazzetta ticinese*, 17 luglio, reprinted and here cited from Einaudi 1955, pp. 52-59.
- MARCHIONATTI R. (2000), "La 'pericolosità del camminare diritti sui fili di rasoio'. Einaudi critico di Keynes", in Fondazione Luigi Einaudi, *Una rivista all'avanguardia: La «Riforma sociale» 1894-1935*, a cura di C. Malandrino, Leo S. Olschki editore, Firenze, pp. 379-415.
- MARÈ M. e M. SARCINELLI (1998), *Europa: cosa ci attende? L'Unione Europea tra mercato e istituzioni*, Laterza, Roma-Bari.
- MORELLI U. (1990), *Contro il mito dello stato sovrano: Luigi Einaudi e l'unità europea*, Franco Angeli, Milano.
- MORELLI U. (1999), "Luigi Einaudi e l'unità federale europea", in Fondazione Luigi Einaudi, *Europeismo e federalismo in Piemonte tra le due guerre mondiali - La resistenza e i Trattati di Roma (1957)*, a cura di S. Pistone e C. Malandrino, Leo S. Olschki editore, Firenze, pp. 75-98.
- PADOA-SCHIOPPA T. (2004), *La lunga via dell'euro*, il Mulino, Bologna.
- QUADRIO CURZIO A. (2004), "Il disegno istituzionale per l'Europa", contribution to the session "Einaudi e le istituzioni economiche" on the occasion of the conference "Luigi Einaudi: istituzioni, mercato e riforma sociale", Accademia Nazionale dei Lincei, 18 and 19 February.
- SPINELLI A. (1984), *Come ho tentato di diventare saggio*, il Mulino, Bologna.
- VETERANO (1952), *Punti fermi federalisti*, Movimento Federalista Europeo, Foligno, 1952, reprinted under the title "Tipi e connotati della federazione: Discorrendo di Comunità europea di difesa", in Einaudi (1956a), pp. 62-84.
- VON HAYEK F.A. (1976), *Denationalisation of Money*, Institute of Economic Affairs, London.