

ON THE RELATIONSHIP
BETWEEN IRVING FISHER AND LUIGI EINAUDI.
INTRODUCTORY NOTE

FRANCESCO CASSATA*

The correspondence between Luigi Einaudi and Irving Fisher, conserved at the Luigi Einaudi Foundation, consists of 34 letters, between 1911 and 1946.

Although not particularly abundant, this correspondence presents three major points of interest.

First of all, it opens an interesting window on the early reception of Irving Fisher's work in Italy and particularly within the so-called "Turin School" of Economics. Starting from his academic lectures, delivered at the University of Turin and at the "L. Bocconi" University in Milan respectively in 1909-10 and 1910-11, and from the essay presented the following year at the Royal Academy of Sciences in Turin (Einaudi 1912a), Einaudi adopted, in fact, Fisher's theory of income to support and legitimize his proposal for fiscal reform based on exclusive taxation of realized income and exemption of any sort of savings (Pavanelli 2006: 275). In a confidential letter sent to Fisher in January 1938, Einaudi listed retrospectively – among the Italian economists "favourable to the taxation of realised or consumed income" – several important representatives of the Turin School, such as Giuseppe Prato, Mauro Fasiani, Gino Borgatta. The other side – "more numerous", as Einaudi himself had to recognize – included Antonio De Viti De Marco, Umberto Ricci, Paolo Ricca Salerno, Benvenuto Griziotti, Augusto Graziani, Giulio Alessio, Guglielmo Masci.

Along with Fisher's theory of capital and income, it was Fisher's redefinition of the quantity theory of money in *The Purchasing Power of Money* (1911) that attracted the enthusiasm of Einaudi and his collaborators. In October-November 1911, *La Riforma Sociale* positively reviewed *The Purchasing Power of Money*, and in January 1912 Einaudi sent to Fisher a copy of

* Università di Genova. Address for correspondence: francesco.cassata@unige.it.

this review, written by Gino Borgatta (Borgatta 1911). The US economist immediately reacted by involving Einaudi in the plan for the constitution of an International Commission on the Cost of Living, which Fisher was seeking to set up in order to analyse the causes of the price level increase. Fisher was particularly interested in asking Einaudi to intervene on his behalf and obtain the support of the political authorities, and more generally of the Italian audience. Einaudi responded positively, publicising Fisher's initiative in *Corriere della Sera*, in an article titled "È possibile frenare il rincaro della vita ed il ribasso delle rendite pubbliche?" published on 27 February 1912 (Einaudi 1912b).

In a letter sent to Einaudi in January 1913, Fisher distinguished the project of the International Commission on the Cost of Living from his plan for stabilizing the dollar, by directing especial attention to the general need for "more extensive and more reliable data": "Better data are needed as to the rise of prices, apparently world-wide; as to the best methods of combining statistics of prices into 'Index numbers;' as to the relative importance of the various possible causes for the increased cost of living; as to its effects; and as to how the various remedies proposed would actually operate". Fisher's commitment to making his theory empirically meaningful was crucial. It led to *The Purchasing Power of Money's* attempted statistical verification of the quantity theory of money; to annual articles in the *American Economic Review* (1911-1919) on the equation of exchange; to his *The Making of Index Numbers* (1922) and the "ideal index" (the geometric mean of the Paasche and Laspeyres indexes), and finally to Fisher's Index Number Institute, whose weekly commodity price index was accompanied by weekly articles by him.

The importance of mathematics and statistics in constructing economics as a science represents a second point of convergence in the correspondence between Einaudi and Fisher. On the one hand, from 1911 Einaudi provided Fisher with statistical data directly produced and published by the Turin School of Economics: in particular, the goods price data from 1881 to 1913, analysed by Necco (1915), and *L'Italia economica*, i.e. the statistical yearbook compiled by Riccardo Bachi and published as a supplement to *La Riforma Sociale* from 1908 to 1921. Moreover, Pasquale Jannaccone – since 1916 professor of statistics at the University of Turin and general secretary of the International Institute of Agriculture between 1910 and 1912 – was the author of one of the most insightful critical reviews of *The Making of Index Numbers*. Published in May–June 1923, Jannaccone's was the only Italian review – together with a memoir by Corrado Gini on elimination methods – mentioned by Fisher in appendix IX to the third edition of *The Making of Index Numbers*. In this review, Jannaccone endorsed the establishment of Fisher's "ideal formula" as a general "measurement model" (Jannaccone

1923: 245). On the other hand, in September 1925 and again in September 1929, Fisher asked for Einaudi's impressions regarding the weekly publication of his Index Number Institute. Two years later, in December 1931, the Yale economist, as founder and first president of the Econometric Society, invited Einaudi to become a Charter Member and propose candidates for membership (in July 1932, Einaudi proposed for election Vincenzo Porri and Mauro Fasiani).

The last minor, but interesting, element in this correspondence concerns Fisher's public health-oriented eugenics. As Annie L. Cot pointed out, for more than 25 years Fisher led a "double career" as a university professor of political economy at Yale and as an active campaigner for Progressive American eugenics (Cot 2005: 796). In November 1946, the US economist sent Einaudi a copy of his address to the directors of the "Irving Fisher Foundation", to be established "for research in economics, sociology, hygiene and general problems of human betterment". In this letter, Fisher invited Einaudi to join the Advisory Committee of the Foundation, together with Ragnar Frisch, Wesley Clair Mitchell and Jacob Marschak. The Foundation never had any money and never undertook any studies (Allen 1993: 290). But in light of the fact that the Foundation was intended, in Fisher's words, "to provide for the continuation through the remainder of my lifetime of the various endeavours for human betterment in which I have been actively engaged", the nomination of Einaudi cannot but appear as a sign of profound intellectual affinity between the two economists.

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APPENDIX

LETTERS BETWEEN IRVING FISHER
AND LUIGI EINAUDI BETWEEN 1911 AND 1946

Yale University
Department of Political Economy
New Haven, Conn.

460 Prospect Street
January 23, 1911

Mr. Luigi Einaudi
4 Via Giusti,
Torino,
Italy.

Dear Sir:

I thank you most sincerely for sending me the book on Index Numbers for Italy. I am very glad to see this book, and particularly interested to see how the figures for Italy correspond with those for other countries.

I enclose a copy of a letter just sent to the Monetary Commission. You doubtless will hear from them soon and learn how to get their publications.

Very sincerely yours,
Irving Fisher

Copy
January 23, 1911

Mr. A.P. Andrew,
Monetary Commission,
Tresaurry Department
Washington, D.C.

My dear Dr. Andrew,

I have received a letter from Luigi Einaudi, 4 Via Giusti, Torino, Italy, asking whether it would be possible for him as Editor of *La Riforma Sociale* to re-

ceive for purposes of review copies of the publications of the Monetary Commission.

Would you be so good as to communicate with him on this subject?

He is evidently greatly interested and has just sent me one of the publications of a pupil of his, Necco, giving index numbers for prices for Italy.

Very sincerely.

Yale University
Department of Political Economy

Prof. Irving Fisher
460 Prospect Street
New Haven, Conn.

March 2, 1912

Prof. Luigi Einaudi,
4, Via Giusti,
Torino, Italy.

My dear Professor Einaudi:

I thank you for your interesting letter of February 19th in which you express your approval of the plan for an International Commission on the Cost of Living. Thank you also for sending me the copy of your two papers which I was very glad to receive.

Under another cover I am sending you a copy of "The Equation of Exchange" for which you asked, together with some articles by myself, in which you may be interested.

Yours very sincerely,
Irving Fisher

Yale University
Department of Political Economy

Prof. Irving Fisher
450 Prospect Street
New Haven, Conn.

October 10, 1912.

My dear Sir:

I enclose two articles, one showing the practical certainty of a continued high and rising cost of living, the other proposing a partial remedy. Both afford, I think, arguments for calling an International Conference on the Cost of Living. The bill for this having passed the Senate, and having been recommended by the House Committee on Foreign Affairs, will probably come up for consideration in December.

In the meantime could you secure additional support for the measure from influential individuals and organizations and inform the undersigned?

Very sincerely yours,

Irving Fisher

Yale University
Department of Political Economy

Prof. Irving Fisher
460 Prospect Street
New Haven, Conn.

November 6, 1912.

Professor Luigi Einaudi,

16 Piazza Statuto,
Torino, Italy.

My dear Professor Einaudi:

I have your letter of October 20, for which many thanks. I thank you also for sending me a copy of your study on Income which I am glad to have.

Yes, the Crawford-Sulzer Bill was postponed for action until Congress reconvenes in December. Then I hope sincerely that it will be passed without further

delay. The excitement of the political situation in the summer caused many matters to be held over until after election.

You have probably by this time received various articles and pamphlets which I sent you last month, one of which outlined in brief a plan which I have suggested for stabilizing the purchasing power of the monetary unit. I am sending you under separate cover a copy of a typewritten Memorandum which I have prepared giving a detailed account of how this plan would work under various conditions, and I would like very much to know what your judgment of this proposal is, if you have time to examine the Memorandum. Practically everyone who has studied the detailed Memorandum has approved the plan. I have already sent you extracts of some endorsements which I have received and I am sending you some more recent ones also.

As some misunderstanding has arisen in the minds of men who have only seen the brief account of the plan and have not examined the Memorandum, I have prepared a list of "Answers to Objections", which I am also sending you and which I think meets all objections which have thus far been raised.

Hoping that you will write me your opinion of the plan or any criticisms, I am yours very sincerely,

Irving Fisher

THE ECONOMETRIC SOCIETY

An international society for the advancement of economic theory
in its relation to statistics and mathematics

Dr. Charles F. Roos, Secretary
Smithsonian Institution Building
Washington, D.C., U.S.A.

Professor Irving Fisher, President
4150 Prospect Street
New Haven, Conn., U.S.A.

December 21, 1931.

My dear Sir:

As President of the Econometric Society, I have the honor to inform you of your election to Charter Membership. The purpose of this international society is the advancement of economic theory in its relation to statistics and mathematics, and we hope the society may be a significant influence in transforming economics into a real science.

Enclosed are a copy of the report of the organization meeting of this society and a copy of the constitution which was adopted. Enclosed also is a list of those elected to Charter Membership. I hope that you will grant us the privilege of including your name.

The Society plans to hold meetings in Washington, D.C., and New Orleans, Ma., during the Christmas holidays, as you will see by the enclosed copy of our

program, and I hope that, if you can conveniently do so, you will arrange to attend some of these sessions.

Very sincerely yours,
Irving Fisher

July 26, 1932.

Professor Irving Fisher
President of the Econometric Society
New Haven, Conn.

Dear Professor Fisher:

I hope you will excuse my belated answer to your favor of January 29, 1932. I know that other members have already proposed for election at the next session of the Council the names of:

Vincenzo PORRI, professor of economics at the Turin School of Economics, Corso-Peschiera 30; Turin;
Mauro FASIANI, chargé de cours at the Sassari University.

Can you add my name to the list of proposers? Both of them are genuine scholars, alert minds, and have achieved noteworthy results in the field of pure economics.

I append a short bibliography of such publications of mine which I think are related to the spirit of the Econometric Society.

Very sincerely yours
[Luigi Einaudi]

PROFESSOR IRVING FISHER
460 PROSPECT STREET
NEW HAVEN, CONNECTICUT

November, 1933

My dear Sir:

I am sending you a reprint of my article in the October number of "Econometrica" on the "Debt-Deflation Theory of Great Depressions".

If my chief contention is correct, namely that the main secret of great depressions usually lies in the fact that the effort to reduce debt really increases it under certain circumstances and tends to produce the many consequences noted in the article (and elaborated in "Booms and Depressions"), and if the "debt-deflation. theory" is "both new and important", I am naturally anxious that this reprint shall reach all serious students of so-called cycle theory.

I did not try, in "Booms and Depressions" itself, to make any specific claims but merely made a very general statement in the preface. This was partly because of my unfamiliarity with the literature (although thus far no one has found the theory definitely anticipated). Moreover the book was written for immediate usefulness and I feared that, if I emphasized the newness of the theory, I might excite distrust in the lay reader.

But now that the theory is being widely accepted, I fear it may not be traced to the proper source and that my book may be regarded merely as a popularization of previously accepted conclusions.

I would be grateful if you can supply me with any additional names of "cycle" students and still more if you can indicate any anticipations of this theory other than the few partial anticipations noted in the article.

Very sincerely,
Irving Fisher

PROFESSOR IRVING FISHER
 Box 1825
 NEW HAVEN 8, CONNECTICUT

November 21, 1946

Professor Luigi Einaudi
 Governor, Banca Italia
 via Nazionale
 Rome, Italy

My dear Professor Einaudi:

I am writing in regard to the "Irving Fisher Foundation" for research in economics, sociology, hygiene and general problems of human betterment.

I am enclosing herewith copy of my address to the Directors of the Foundation which will show you in detail the nature of this proposed organization.

The Foundation is, at present, on paper only but I am looking forward to its having funds, partly from me, and partly from others. In fact, such have been promised.

I would like to nominate you to be one of the Advisory Committee. So far only three others have been approached, Professor Ragnar Frisch, Professor Wesley Clair Mitchell and Professor Jacob Marschak, all of whom have accepted.

The Advisory Board is, as its name implies, merely for advice. I want to first constitute the Economic Section of it and to have this section cover the leading economists of the world. There will be more from America than elsewhere but not very many from any one country. I would particularly like to have your suggestions as to other economists and especially those outside the United States.

In the United States I am thinking of Schumpeter particularly, and also Marget, Hamilton, Witte, Graham, Nourse and Marriner Eccles.

There are several other possibilities. I shall expect to select one other Yale economist, probably either Fairchild or Westerfield.

I thought as possibilities among European economists of R.G. Hawtrey, who is now President of the Royal Economic Society, Sir William Beveridge, Arthur L. Bowley, Erik Lindahl, Professor Ohlin, Schumacher of Germany (if living), Mahalanobis of Calcutta, Soong of China, Verrijn Stuart and Tinbergen of Holland.

For England I think Beveridge would count most as a name as he is better known probably than any other living English economist throughout the world. Of course, the influence of the name is an important consideration but I would not like to have very many who did not deserve the reputation they have.

Hoping that you may be willing to lend your name and wish best wishes, I am,

Sincerely,
 Irving Fisher

I'll appreciate criticisms and suggestions