

## ON EINAUDI'S 'VISION' OF THE GOOD POLITY

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### ABSTRACT

Einaudi's *On Abstract and Historical Hypotheses and on Value Judgments in Economic Science* can be understood as an attempt to provide an epistemological justification of his search for a good polity. The paper outlines Einaudi's 'vision' of the good polity by focusing, in particular, on his reflections on the nexus among social structure, model of state and fiscal system.

**Keywords:** Luigi Einaudi; Good Polity; Good Government.  
JEL codes: A13; B31; B41.

1. The critical edition and translation of Luigi Einaudi's unpublished rewriting of *On Abstract and Historical Hypotheses and on Value Judgments in Economic Science* (Einaudi 2017) is an important contribution to economic methodology. After reading this essay, edited and introduced by Paolo Silvestri (Silvestri 2017a, 2017b, 2017c, 2017d), a well-known Einaudi specialist,<sup>1</sup> most non-Italian scholars will ascertain that the Turin economist was not only a brilliant columnist of the *Corriere della sera* and *The Economist*,<sup>2</sup> a renowned expert on income taxation, a long-life liberal intellectual, being in sequence Professor, Senator, Minister, Governor of the Bank of Italy and President of the Italian republic. He was also a philosophically-minded intellectual.

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<sup>1</sup> See *inter alia* Silvestri's monographic work on Luigi Einaudi's liberalism and good government (SILVESTRI 2008).

<sup>2</sup> See respectively EINAUDI 1959-1965 and 2000.

2. Einaudi's meditation upon the ideal features of a society where economic growth and distributive justice marched hand in hand led him to depict the "heavenly city", namely, a society in which the individual welfare is high and the respect of rights is warranted by the spontaneous discipline of many well-educated citizens. The living example of this society, Einaudi observed, could be found neither too far nor too remote from Piedmont. The historical experience of Switzerland – the country that hosted Luigi and Ida Einaudi flying away from Fascism in 1943 – shew that true patriotism requires, above all, the existence of friendly and peaceful sentiments towards all those countries which believe in the same values. These sentiments, which form the basis for a working democracy, were guaranteed by the social structure of Switzerland, a nation characterized by the economic independence of proprietors and the comparatively limited number of proletarians. In fact, as Adam Smith taught, it is the spread of small property among the working class that nourishes its civic patriotism.<sup>3</sup>

3. One of the main features of the Italian theory of public finance is the relation between the tax system and the nature of the state. Antonio de Viti de Marco, whom Einaudi praised as the founder of the Italian "modern" tradition in public finance, opened his *First Principles of Public Finance* with the definition of two diametrically opposed ideal types of state, the liberal-competitive and the dictatorial-monopolistic (De Viti de Marco, 1936, ch. 1). Luigi Einaudi inspired his own ideal system to de Viti's scheme. In *Myths and Paradoxes of Justice in Taxation* [2014 (1940)] Einaudi completed his discussion on the Italian tax system by adding a theoretical-historical meditation. He concluded that it is the model of state that determines a particular tax system and not *vice versa*. In order to clearly explain his position, he referred to the system of taxation in ancient Greece, particularly Athens during the age of Pericles (*ibid.*, chapter XII). Here, Einaudi argued, we can ascertain the co-presence of the best form of fiscal system – based on voluntary *leithurghiai* – and of the best form of a state, *qua* influenced by the highest political philosophy, due to Plato.<sup>4</sup> In fact, his *Politeia* dictated the tasks of the state in any given historical age and/or country.

4. Einaudi's reference to history in discussing the various models of taxation presenting the structure of Italian public finance system was mainly due to his preoccupation that too abstract interpretive models could lead

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<sup>3</sup> See WINCH 1978.

<sup>4</sup> See the meaningful reference to Plato's definition of the "elect class" in EINAUDI 2017: 70.

to preposterous ideological conclusions. This was principally the case of Marx's economics, based on the fallacious identification of the creative entrepreneur with the rapacious capitalist. Against this confusion Einaudi protested. The so-called "capitalist", he maintained, is no other than the "silly servant of the market", because he is most useful, but he is not aware of his own role (Einaudi 1943). In fact, the Smithian "invisible hand" tends to balance the market forces which are intimately antagonist. This antagonism is *per se* providential. The spirit of organization showed by the working class provides a remedy to the absence of "invisible hand", although the improvements in the economic conditions of the workers are most due to struggles, as Einaudi himself documented in *Le lotte del lavoro* [Einaudi 2012 (1924)].

5. The working of the invisible hand principle *plus* the free organization of the working people in trade unions do not imply a static society: quite the reverse. In his writings Einaudi is most able to present the cases for continuously changing situations where human inventiveness is put to trial. The course of human history teaches us that there is no unique pattern of economic growth. Obviously, a minimal set of conditions has to be respected, in order that human creativity can freely work. Where and when these conditions have been respected, we can detect the presence of a *Buongoverno*-based society. The famous Sienna fresco by Ambrogio Lorenzetti on the effects of bad and good government<sup>5</sup> exemplifies the idea that any social and economic order is the natural outcome of a good policy – a policy that best stimulates the endowment of creativity inherited by any historically given society. A pluralist approach to the major problem of economic growth is therefore necessary. The teaching we can get from Einaudi's meditation on history is that the course of human creativity is unpredictable. Who could have foreseen the extraordinary economic success of the Italian "republics",<sup>6</sup> or the flourishing of agriculture in Eighteenth century Lombardy after the long Spanish misgovernment? In his preface to the writings of the great economist and patriot Carlo Cattaneo, Einaudi praises the intelligence of the Austrian rulers, who guaranteed a safe reward to the entrepreneur by introducing a uniform taxation which exempted the neat surpluses over the average gains (Einaudi 1939: 41-46). Economic reforms and economic growth proceed hand in hand.

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<sup>5</sup> The Lorenzetti fresco was employed by Ernesto Rossi, one of the most affectionates Einaudi's disciples, as flap cover of his pioneer collection of Einaudi's writings (EINAUDI 1955). It is a pity that Rossi's work, although mentioned in the general bibliography of EINAUDI 2017, is not utilized by Silvestri.

<sup>6</sup> Simonde de Sismondi, the Swiss historian of the early Renaissance Italian city-states, was most praised by Einaudi. See EINAUDI [1953 (1941)].

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