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THE CONTRIBUTION OF LUIGI EINAUDI TO PUBLIC FINANCE

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ABSTRACT

This paper illustrates the main contributions of Luigi Einaudi (1874-1961) to the field of public finance – the definition of the personal income tax base within the theory of optimal taxation and the architecture of economic legislation in the liberal state – and discusses their relevance today. The public policy recommendations that descend from Einaudi's voluminous research in this area include: personal taxation based on normal or ordinary income to approximate the ideal consumption tax base, avoid the double taxation of savings, and generate the correct incentives to invest and produce new capital goods to the benefit of the creation of a progressive society; contrast to monopolistic power and any form of artificial limitation of free competition; reduction of excessive interpersonal inequalities (lowering the peaks) to avoid the risk of tyranny; the pursuit of social justice while preserving incentives to market participants; finally, the reduction of inequality in starting points through public provision of education to the benefit of the younger generations and to society at large. Despite the enormous transformations that the world economies have experienced since his death, Einaudi's writings turn out to be almost prophetic of the main contemporary challenges of economic and fiscal policymaking.

Keywords: Optimal Tax, Liberal State, Redistribution.
JEL Codes: A11, A31, B31.

Introduction

Besides representing one of the most influential figures in 20th century's Italian social and political life, Luigi Einaudi (1874-1961) was a distinguished academic that gave significant and long-lasting contributions to the field of public finance. His numerous writings, particularly those concerning the design of the personal income tax, gave him great visibility

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at the international level. In fact, the Einaudi opinion-maker, central banker, politician, and statesman found his cultural roots in the Einaudi public economist, who grew up in the extremely fertile environment of the Italian public finance school between the end of the 19th century and the beginning of the 20th century and was heavily influenced by its most eminent representatives, from Francesco Ferrara and Ugo Mazzola to Maffeo Pantaleoni and Antonio De Viti de Marco.

Luigi Einaudi gained the chair of public finance (*Diritto Finanziario e Scienza delle Finanze*) at the University of Turin in 1902, at the age of 28. With inexhaustible passion, he dedicated his entire life to research into some of the fundamental topics of the public finance field, as witnessed by his enormous and impactful scientific production.

From the very beginning of his academic life, Einaudi was deeply and passionately involved in the problems of the real world. Like Antonio De Viti de Marco, he saw public finance as an "applied science"[1] that ought to provide answers to social and economic issues by identifying the most suitable means to achieve the ends that society sets itself. This led some observers to see in his realistic and pragmatic approach the expression of a sort of "virtue of common sense".[2]

However, in his analysis of the problems of the economy and in his search for the solutions to those problems within the public finance toolbox, Einaudi never departed from the rigor of science. He never disdained but rather engaged enthusiastically into purely theoretical disputes – among all, the controversial question of the double taxation of savings that would engage him for the entire span of his lifetime and to which we will return later. In fact, his faith in the power of theory even led him to conclude that, when the empirical investigation he was so fond of – and whose strength is so beautifully expressed and summarized in the famous article *Conoscere per deliberare* (Making informed decisions)[3] – cannot be conducted according to the desirable standards of accuracy and reliability, it is preferable to focus on theoretical modelling:[4] an unequivocal declaration of the supremacy of fine theoretical reasoning, yet never an end in itself and always aimed at solving real-life problems to the benefit of society at large and of the future generations in particular.

In dealing with those problems, ranging from the definition of the tax base of the personal income tax to the thorny issues of unemployment

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1 De Viti de Marco 1934: 35.

2 Magnani 2004.

3 Einaudi 1964.

4 Einaudi 1972: 115.

insurance and public debt, Einaudi never gives the impression that he is indulging in purely academic matters. Even when he treats the most technical aspects of the subject, his tight and sharp reasoning is fuelled by a passion that leads him to overwhelm his opponents ("the brotherhood of doctrinaires" and "the evil counsellors of the so-called tax justice")[5] like a river in flood, with a rhetoric that, particularly in the volume *Miti e Paradossi della Giustizia Tributaria* (Myths and paradoxes of tax justice), can sound pretty harsh to the contemporary reader.

Throughout his writings in the field of public economics and finance, Einaudi frequently cites the greats who preceded him to support his theses, from Adam Smith to John Stuart Mill. On the other hand, he regularly relies on simple numerical examples to effectively convey his point to the reader. One can appreciate, in his prose, an innate talent of "making everything extremely clear, precise, transparent. And this not only for reasons of style, but precisely because of a continuous digging into the concepts, for the ability to progressively refine them, to clarify them".[6]

Einaudi's scholarly research in the field of public economics and finance is enormous. By exploring the crucial dimensions of the role of the public sector in the economy – from the state as a factor of production ensuring the necessary conditions for social and economic life to the principle of balanced budget and the use of public debt – Einaudi outlines his unique and multi-faceted (historical, ethical, legal, political, and economic) vision of 'good government' (Silvestri 2023).[7]

Amongst those writings, the ones that seem the most representative of his rich and varied thought and that most significantly contributed to his wide international academic reputation are the early contributions on the definition of the tax base of the personal income tax that are contained in the volume *Saggi sul risparmio e l'imposta* (Essays on savings and tax) and the two books *Miti e paradossi della giustizia tributaria* and *Lezioni di politica sociale* (Lessons in social policy). We believe that these works nicely convey what can be considered the two most lasting contributions of Einaudi to the theory and practice – never separated in his thought – of public economics and finance: the contribution to the theory of the optimal income tax based on normal or ordinary income and the one concerning the architecture of social economic legislation in the liberal state to achieve social justice while preserving incentives to market participants. The rest of this paper is dedicated to the presentation and

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5 Einaudi 1940: 11, 203.

6 Romano 1974: xviii.

7 For a thorough analysis of Einaudi's view on balanced budget, see Silvestri 2012.

discussion of Einaudi's main accomplishments in these two important fields of research.

1. The optimal tax

One of Einaudi's most significant contributions to the theory of public finance is his research into the definition of the optimal tax. Einaudi wonders: what characteristics must the optimal tax have?

> Optimal is that tax from which, at a given time and place, the best satisfaction of public needs is obtained, compatibly with the production of the most abundant flow of national income. The tax is optimal, or rather, the tax increase is optimal, if it adapts to the pre-existing economic equilibrium and disturbs it the least, with the smallest friction, with the maximum return for the state and with the largest increase in private income. The optimal tax does not decrease but increases the amount of national income in comparison with what would have been without it.[8]

It is quite clear that such tax does not in any way deprive or diminish the wealth of the country. The optimal tax, to the design of which legislators should aspire, far from constituting a burden, increases the wealth of taxpayers. In responding, as in Francesco Ferrara's scheme of public finance, to the "idea of the tax in its purity", it assumes the role of contribution to those essential services provided by the state without which the creation of wealth would not even be possible:

> It is false and grotesque to say that it means destruction. It is the means by which the state creates new values: of security, justice, defense and national greatness, of culture, of health of the body, of unity of men living on the territory of the fatherland. Through taxation, the state creates the judicial and political environment in which men can work, organize, invent, produce. What would men be if it were not the state? Miserable savages, wandering on the earth, defenseless against wild beasts, insecure of food and life, armed against each other.[9]

But how should the optimal tax be structured? In particular, what should be the tax base? In the essay *Intorno al concetto di reddito imponibile e di un sistema di imposta sul reddito consumato. Saggio di una teoria dell'imposta dedotta esclusivamente dal postulato dell'eguaglianza* (Around the concept of taxable income and a system of tax on consumed income. An essay on a theory of taxation deduced exclusively from the postulate of equality),

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[8] Einaudi 1958: 75.

[9] Einaudi 1940: 199.

Einaudi exposes the Millian thesis of the double taxation of savings in a rigorous and persuasive way and examines its implications for the design of the income tax.

The Millian theorem from which Einaudi starts, after clarifying the difference between earned income and realized or consumed income, states that taxation of the former, which includes the part of income devoted to savings, leads to a double taxation of the same amount of wealth:

> The principal and the interest cannot both form at the same time a part of his disposable wealth: they are the same thing repeatedly counted; if he has an interest, it is because he refrains from using the principal; if he spends the principal, he does not receive interest.[10]

Therefore, the most, or rather the only, correct way of designing the tax on personal income consists in the taxation of consumption, i.e. earned income minus savings.

In accepting the validity of the Mill's theorem, Einaudi makes it clear that it rests on the "postulate of equality", that is, the hypothesis, which should be universally accepted, that equal wealth must be taxed equally. On the other hand, this would not be the case if the entire income earned by the taxpayer were taxed, i.e. both the savings at the time it is made and the future flow of interest that it guarantees.

The practical consequence of accepting the Mills' theorem is that, if the "repugnant" double tax is to be avoided, it is necessary that either the fraction of income that is saved in the current period or the flow of the subsequent returns to savings (income from capital) be excluded from the income tax base. Given the infeasibility of the second hypothesis, particularly with regard to business income (mixed income from capital and labour), Einaudi focuses on the first, i.e. the exclusion of saving from the income tax base at the time it is realized.

But even this hypothesis turns out to be difficult to apply because family budgets are not observable. Einaudi concludes that any attempt to directly and analytically ascertain the part of income consumed is doomed to fail, so that the theoretical principle of taxation of consumed income ends up being conventionally translated into two approximations: taxes on earned income with provision of a deduction for the fraction of it that is devoted to savings and taxation of material goods and personal services at the time they are exchanged (indirect taxation).

As regards the first approximation, Einaudi believes that the taxes on earned income with the deduction of presumed saving shares will always

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10 Einaudi 1958: 12.

be "distorted from the ideal", i.e. from the ideal tax on the fraction of income that is actually consumed, and will be less desirable than taxes on consumption "which theoretically come closest to perfection".[11]

As a result, it is more fruitful to proceed with the second approximation. Einaudi acknowledges that a general tax on consumption and the pure, ideal tax on consumed income would not be substantially different only in the unrealistic circumstances in which the state "knew every way that the cash destined for consumption must take in order to transform itself into services of goods that are actually consumed".[12] Therefore, the taxation of consumption goods should be limited to those items that can be assessed with moderate administration costs, i.e. those that present technical difficulties that are not insurmountable as they are consumed in a universal and visible way. And while admitting that a tax on all consumption is not possible, it is still possible to tax a volume of consumption which, although not universal, constitutes an approximately constant proportion of the total income consumed by different types of taxpayers. In the end, Einaudi concludes that the inequities associated with consumption taxes will in most cases be less serious than those arising from the taxation of earned income and will exclusively depend on potentially not insurmountable difficulties of a purely technical nature.

If anything, according to Einaudi, consumption taxes would risk incurring another violation of the postulate of equality if they fell onto distinct, more subtle forms of saving. How could that happen? In this regard, Einaudi introduces the concept of personal savings, which can in turn be divided into those savings that benefit the individual taxpayer and those savings that benefit his family. And it is to this latter type of savings that Einaudi attributes extraordinary importance, as they refer to the physical and intellectual improvement of his family, especially his children. Since the expenses incurred for breeding and educating the new generations return, in a similar way to the reclamation of land or the investment in new and modern machinery, a greater flow of future income, taxing the sum invested in training the offspring and then the larger one, returned in the time to come, involves double taxation. Consequently: "no tax can be considered correct, in relation to the stated premises, if it does not exempt, together with capitalist savings, also personal savings" or if it does not guarantee "particular immunity from expenses intended for the education and upbringing of children".[13]

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[11] *Ibid.*: 37.

[12] *Ibid.*: 25.

[13] *Ibid.*: 46.

Finally, the exclusion of savings from the income tax base would have the enormous merit of removing the "aberrant" obstacle that the tax on earned income generates on the production of wealth:

> Man is bored of being vexed when he invests in expectation of future uncertain returns; he angrily resents the tax that is added onto his present sacrifices of labor and capital to increase the cost without knowing whether it can be compensated in the future. He reluctantly pays taxes when he plants shrubs that he does not know if they will become sturdy trees or spends on educating children without knowing whether they will respond to his care or desires or when he accumulates savings that he does not know if death will prevent him from enjoying. The tax, therefore, acts in this first period as a brake on savings, as an impediment to the planting of forests, as a hindrance to the creation of new young people who are more cultured, more educated.[14]

However, in Einaudi's design of the optimal income tax, there is a way to overcome the obvious difficulties inherent in the attempt to ascertain saving, in its various forms, to avoid double taxation. The choice that represents the best approximation to the principle of the exclusion of savings is the use of normal or ordinary income as the tax base of the income tax, a concept of fundamental importance in Einaudi's thought.

Einaudi's profound and articulate reflection on the identification of the ideal tax base for the income tax leads in the essay *Contributo alla ricerca dell'ottima imposta* (Contribution to the search for the optimal tax) to the conclusion of the optimality of the application of the method of taxation of normal income – what Forte (1962) defines, in addition to the thesis of income-consumption, the "other great Einaudian thesis"[15] and Magnani (2004) "a truly brilliant testimony of pragmatism".[16] Einaudi acknowledges the merit of the idea of normal or ordinary income as the ideal tax base to the great economists who governed Lombardy in the eighteenth century (Pompeo Neri, Gian Rinaldo Carli, Cesare Beccaria, Pietro Verri) and summarizes the point with the usual clarity:

> the method of taxation of normal or ordinary income, also called cadastral, by which the factual truth is not sought about the gains and losses that individual taxpayers have; but it investigates what is the income that, given that land of a certain fertility and position and culture, or given that factory equipment, the normal entrepreneur would be able to obtain.[17]

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14 *Ibid.*: 123.

15 Forte 1962: 29.

16 Magnani 2004: 22.

17 Einaudi 1958: 229.

The taxation of normal income is the natural outcome of Einaudi's majestic financial construction and turns out to generate an almost sacred precept or commandment that modifies the corresponding norm of De Viti ("everyone, consuming general public services in proportion to their income, must pay tax in proportion to that income") in the following way:

> Everyone, consuming general public services in proportion to their normal income – to the income that the normal producer or worker would ordinarily have had in relation to the means of production owned – must pay tax in proportion to that normal income.[18]

Complying with the commandment prevents the legislator from committing the most deplorable fiscal sin, i.e. the double taxation of savings, and the reason why the commandment derives from the principle of the exclusion of savings from the taxable base is obvious if one recalls the classification of taxpayers proposed by Einaudi. The first type, the sub-normal taxpayer or squanderer – whose prevalence makes society regressive or decadent – is certainly almost never able to save. On the contrary, he tends to consume any previously accumulated savings. Therefore, the tax in this case fully respects the rule of taxing saving at the time it is transformed into consumption. As for marginal or normal taxpayers, who lack "the daring of the pioneer and of the entrepreneur",[19] whose prevalence determines a substantially stationary society, they do not have significant margins for savings and, not knowing (presumably) how to depart as consumers from the customs of their times, they are fully hit by the tax, also in this case literally respecting the theoretical rule of taxation of consumption. Finally, the super-normal taxpayers, the innovators on whose prevalence the state of progress of society depends, are the only ones who have a significant saving margin, so that the tax sublimates its function when it exempts those savings by taxing their ordinary income.

What are the benefits that ultimately derive to society from the precept that the state, in distributing the tax, should behave as if all men belonged to the type of marginal or normal men, ignoring the existence of sub-marginal and above-marginal men? For Einaudi, in addition to being undisputable from the point of view of pure logic, this precept would trigger the virtuous incentive to invest and produce new capital goods, creating the basis for a progressive society of "increasingly prosperous peoples".[20] As far as logic is concerned – or maybe just that "reassuring veil

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18 *Ibid.*: 235.

19 *Ibid.*: 240.

20 *Ibid.*: 233.

of common sense"[21] that does not fail to resurface here and there – Einaudi believes that:

> Everyone is the measure of themselves. Wages, interest, profits are the remuneration of labor, capital, the entrepreneurial function; and they are commensurate with the value of the contribution of labor, capital and enterprise. […] Thus the state provides moral and spiritual goods of the highest value for all those who find themselves in a suitable situation to take advantage of them. What fault does the state have if distinct individuals, provided with the same economic means, have different abilities in taking advantage from the services that the state equally provides them? Why, if one gains and the other loses, should the state make the former pay and leave the latter immune? Is not this an illogical conduct? The state has done its duty, it has fulfilled its office when it has created the environment of peace, of justice, of coordinating social institutions, of culture within which the two individuals can use the means they possess in equal measure. Logic and common sense dictate that the state should make both equally pay for its services. The success or failure of the undertakings of the two taxpayers does not concern him … The state helped me to stand up and walk; and therefore, not because I have been able to walk much or little, I am liable to the tax.[22]

However, from the point of view of pure economic reasoning, the argument based on the virtuous incentives that the application of the precept can produce appears even stronger:

> Investigating what the individual actually produces from year to year is an envious and dangerous work: it is envious because it pushes the individual to look at his neighbor and to spy on and emulate his attitude to defraud; it is dangerous because it extinguishes and attenuates the flame that induces men to fatigue and progress.[23]

All the better, therefore, to abandon that absurd search for absolute tax truth and replace it with deference to practical truth, which amounts to making everyone pay what he owes to the state by reason of the work done by the state itself to create the juridical and collective environment within which to express its potential.

Of course, Einaudi did not miss the sense of the criticisms related to the distributional consequences that the literal adoption of that precept would imply. And in *Miti e paradossi della giustizia tributaria* he carefully defines the necessary corrections in the phase, so to speak, of the implementation of the tax on normal income:

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21 Gigliobianco 2010: 3.

22 Einaudi 1940: 202.

23 *Ibid.*: 222.

That is, one can embrace the party of ascertaining and evaluating 'normal' incomes instead of 'actual' ones; at the same time, it is possible to calculate the tax dues with criteria of personality and not of reality, on wealth and not on income, and with progressive rather than proportional rates.[24]

These distributional aspects are by no means ancillary in the thought of Einaudi as a public economist that is deeply concerned about social justice and find their most complete expression in the *Lezioni di Politica Sociale*.

2. Economic legislation and the liberal state

The analysis of the social and economic legislation, i.e. the set of fiscal norms and regulatory instruments that the state uses to influence the allocation and distribution of resources, is the subject of the *Lezioni di Politica Sociale*, where Einaudi explores the border area between public economics and political theory. The *Lezioni di Politica Sociale* can be interpreted as a proposal for a comprehensive economic and fiscal constitution that anticipates the approach of James Buchanan's school of public choice on which Einaudi's work will exert so much influence. The economic and fiscal constitution can be seen as the set of rules and institutions that, as they conform to the free market, allow the state to pursue its social justice objectives while letting the market itself represent and continue to represent in the future the underlying system of resource allocation.

In this sense, the spirit of Einaudi's analysis gets closer to the principles underlying the constitutional economic policy (*Wirtschaftsverfassungpolitick*) of the ordoliberalism of the Freiburg School of Walter Euchen and Franz Böhm – in particular to the idea of assigning the state the role of guardian of the competitive order (*Hüter der Wettbewerbsordnung*), responsible for the legal-institutional framework (*Ordnungspolitik*) within which economic actors pursuing their own interests contribute together to the promotion of the common good.[25] Similarly, it reminds of the balanced combination of the impulse to free competition and the passion for equality of the "modern liberal" Henry Calvert Simons of the *Positive program for laissez-faire*.[26] Finally, Einaudi's vision adheres to the model of the social market economy that originates from the economic humanism of Wilhelm

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[24] *Ibid.*: 223.

[25] Vanberg 2015; Marchionatti 2021.

[26] Stigler 1974.

Röpke (the third way), towards whom Einaudi feels "intellectual and moral sympathies" and with which he fully shares the repugnance towards collectivism and levelling, the need for strict surveillance of the market to ensure the application of the fair rules of the game, and the aspiration to "natural promotion of small production units and modest settlements, of healthy forms of life and work".[27]

Beyond the controversial model of society based on the harmonious, hard-working and thrifty family that Einaudi outlines in the *Lezioni di Politica Sociale*, a model that may sound idealized, nostalgic or even pre-modern, a "small ancient world" that perhaps never really existed,[28] the *Lezioni di Politica Sociale* are based on a rigorous theoretical framework inspired by the marginalism of Walrasian-Pareto origin. Moreover, they rely on the definition of a concept of equality of opportunity – akin to the equality of opportunity concept of the new English liberalism – that goes well beyond an abstract declaration of equality of rights or a formal appeal to meritocracy. In fact, the *Lezioni di Politica Sociale* offer to the reader a portfolio of specific, structural, and in some cases even radical policy instruments both on the taxation side and on the public spending side to effectively turn the equality of opportunity ideal into reality.

A further aspect of modernity of the *Lezioni di Politica Sociale* is the crystal-clear exposition of the fundamental trade-offs that policy-makers responsible for economic legislation face when they try to move the market allocation of resources towards a greater equality of starting points – the theory of the critical point – in the ubiquitous dilemma between the need to preserve incentives to market participants and the pursuit of social justice objectives.

Einaudi's approach turns out to be of high relevance today, especially in the light of the ongoing debate on the reform of the welfare state in the Western economies, where the dramatic financial crisis first and the even more dramatic pandemic crisis have exacerbated the pre-existing problems of poverty and injustice. In Einaudi, the principle of reducing inequality in starting points and lowering the peaks is the direct consequence of another, superior principle – the view of justice as individual responsibility – that is, a concept of redistributive justice that is inherent in the competitive economic system and does not limit freedom at all, but rather derives from it, and where the minimum income that is guaranteed by the state can only be justified as a form of elevation of the human person – the starting point and not the final objective.

27 Einaudi 1942.

28 In this regard, see, among others, Heritier 2012.

In Einaudi's liberal thought, competition takes on a central role as an engine for the creation and distribution of wealth. Therefore, one of the recurring themes of the economic policy of the liberal state ends up being the fight against monopolies, both artificial and natural ones.

As far as the former are concerned, since in most cases they owe their origin and strength to customs protection and tariffs and their harmful consequences on collective well-being to contraction of the level of production and application of a price in excess of the marginal cost of production – a necessary condition for the maximization of monopoly profits – it is necessary, according to Einaudi, to destroy the artifice that created them via an effective antitrust policy. Therefore, Einaudi recommends the reduction or abolition *tout court* of duties and the opening up of the economy to international commerce and competition. At the same time, it is necessary to intervene on the other possible causes of monopoly that cannot be traced back to nature, but to the legislator: excessive protection of patents, quotas, privileges, high prices guaranteed by the state, and restriction to the number of licenses necessary to enter the market, often managed in a corporative way – problems that are well known to plague our contemporary economies too. The consequences of radical market reforms in this sense, in Einaudi's liberal vision, consist in the elimination of undue profits, the increase in the level of production, and a both more efficient and more equitable distribution of income.

As for natural monopolies, i.e. those created by the underlying structure of production costs and where the coexistence of several firms in the market would lead to productive inefficiencies, the recipe is completely different: here, according to Einaudi, it is necessary to replace the private monopoly that would arise naturally in the market by a public monopoly. In this case, since it is not possible to cancel the monopoly altogether, it must be transformed and managed to the advantage of the common good. However, this does not always and necessarily mean that it is the public monopolist who needs to carry out the activity or directly provide the service in question. In Einaudi's view, it is conceivable that the monopolistic services be contracted out to a private enterprise, for a fixed or indefinite period. What matters for collective well-being is the pricing policy, which must be anchored to the marginal cost of producing the service.

Without entering into the long-debated question of the role of the economist in questions concerning means and ends,[29] we limit ourselves here to observe Einaudi's scientific approach to the problem posed by the existence of monopolies, an impartial approach characterized by the

[29] On this, see the insightful discussion in Fossati 2014 and Fossati and Silvestri 2012.

absence of any prejudice against the public option and by the confidence that the continuous and careful control of citizens over public affairs can act as a guardian against possible abuses and degenerations.[30]

Another aspect of economic legislation to which Einaudi devotes attention in the *Lezioni di Politica Sociale* concerns social insurance. Social insurance should aim at the elevation of human beings, at the same time stimulating mobility and professional freedom. Among the various social insurance provisions, the most controversial one seems to be the unemployment insurance, where Einaudi cannot refrain from expressing his deep concerns: "It seems certain that the public unemployment insurance is one of the most dangerous and dubious elements of the entire system of insurance and social assistance".[31]

As for the social security programs that guarantee a minimum subsistence level, the universal state basic income, Einaudi does not deny its positive effects insofar as it allows young people to wait for the best time to enter the working life. As for the old-age insurance, Einaudi does not hide his romantic predilection for "morally preferable methods of providing for old age",[32] while with reference to interventions in the case of marriage and maternity, he suggests that "clinics where mothers have hospitality and care before and after childbirth and provision of cheap and healthy housing to new couples seem more effective than financial subsidies".[33] Throughout, Einaudi's approach consists in systematically comparing the arguments for or against the options in the various hypotheses of social insurance, a dialectic method that is "incompatible with the universal recipe, the easy solution that is applicable to a generality (often not well defined) of cases".[34] What matters, for Einaudi, is ultimately the rigour and consistence of the arguments put forward and the ability to recognize the complexity of the problems:

> The essential thing is to persuade oneself that social problems are complicated, that they do not offer easy solutions, and that in a free country the ruling class must accept to seriously discuss studies, observations and reasoning, staying away, as from the plague, from demagogues.[35]

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30 On the far more pessimistic position taken by Einaudi in this regard in other, subsequent contributions, see Bini 2010.

31 Einaudi 1972: 110.

32 Here Einaudi includes the "own home", the "farm inherited or built piece by piece", "the affection of a firmly established family" (Einaudi 1972: 95).

33 *Ibid.*: 101.

34 Gigliobianco 2010: 5.

35 Einaudi 1972: 119.

Finally, one of the most discussed, fascinating, and controversial traits of Einaudi as a public economist is his view of redistributive policy (Forte and Marchionatti 2012). Einaudi starts from the observation that the market, in its admirable perfection, is nevertheless "an impassive economic tool, which ignores human values like justice, morals, and charity".[36]

Clearly rejecting absolute equality between men or the principle of proportionality of income distribution to needs as impossible to achieve, Einaudi nonetheless firmly believes that economic and social legislation must work to bring the starting points as close as possible. For Einaudi, it is essential that the objective of equality in the starting points is pursued while preserving incentives and does not turn into an encouragement to idleness, paying due caution to the critical point, beyond which even policies aimed at human elevation and perfection turn into an instrument of degeneration and decadence. This is what happened to the Periclean city, which from political perfection ("splendid public works", "treasury aimed at protecting the future of the city", "vigilant care of defense") fell victim to welfarism, where "the poor become increasingly demanding and place their idleness at the expense of others above the interests of the city".[37]

What in the end is the redistributive model of liberal society that manages to reconcile the need for social justice with the activism and industriousness of its members? Einaudi believes that the redistributive policies to be implemented in order to pursue equality in the starting points must be of two main types: the lowering of the peaks and the raising from below. The lowering of the peaks takes place primarily through progressive income taxes and inheritance taxes. As far as the former are concerned, the actual progressivity curve depends on the way in which the legislator applies the general principle to the specific conditions of the country. Again, there cannot be a single recipe that can be taken as valid always and everywhere. As far as the inheritance tax is concerned, here emerges a profound and typical trait not only of Einaudi's thought, but rather of his personality: every portion of income that a man enjoys must be the fruit of his own work, merit, and sacrifice: "only the long and painful way is the good one".[38] If the heirs of the great captains of industry do not possess those same qualities, "the inheritance tax will relentlessly deprive them both of the ownership and the governance of the enterprise".[39] Also in this case, the tax is perfectly in accordance with the market forces in the sense

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36 *Ibid.*: 245.

37 Einaudi 1940: 276.

38 *Ibid.*: 113.

39 *Ibid.*: 291.

that, far from interfering with them, it effectively works as to stimulate the spirit of enterprise of the heirs, preventing the economic process of accumulation from coming to a stop.

As far as the raising-from-below policy is concerned, it is performed by means of a national basic income and through spending on public services that are fundamental for the training and development of individuals, particularly with regard to education, which must be made available to all children, regardless of the financial means of the family of origin:

> How many useful inventions, how many scientific discoveries, how many masterpieces of sculpture, painting, poetry, and music could never reach perfection, because the man who could have given birth to them was forced from his earliest years to hard brutal labor, which forbade him to make the qualities born of nature sprout and bear fruit?[40]

Finally, and most importantly, the reduction of inequalities through social economic legislation responds, for Einaudi, to the function of defending freedom, the supreme good for the liberal thinker, from the risk of tyranny:

> Tyranny is near when there is a considerable gap in the fortunes and incomes of the citizens, so that alongside a few very rich people there are multitudes of propertyless and there is no numerous and prosperous middle class: so that the tyrant can emerge either from the few who desire to have an instrument of their economic domination at their disposal, or from the many to whom the demagogue ambitious to conquer absolute power promises the plundering of the wealth of the few.[41]

As long as the lowering of the peaks does not exceed what Einaudi calls "the critical point" – that is, that point when even the best policy starts producing bad consequences[42] – reducing the gap in the fortunes and incomes of the citizens, or what would be called today taxing the ultra-rich, serves the crucial purpose of preserving freedom. In fact, there need not be a conflict between the market as the ideal resource allocation mechanism and the state as the guardian of liberal order and social justice. In the "good ancient world"[43] that Einaudi dreams of reviving in present as well as future generations, the state and all free men cooperate for the

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40 *Ibid.*: 246.

41 Einaudi 1972: 327.

42 For a deeper discussion of Einaudi's critical point theory and its interpretation as a dilemma between institutions and liberty, see Silvestri 2023.

43 Draghi 2010: vii.

ultimate goal of elevating the human condition, each finding freedom in rigorously fulfilling their tasks. And it is precisely the cooperation of the work of the good government with the upright, honest and hard-working life of each one that allows the flourishing of a strong, just and cohesive society, the only antidote to tyranny.

Conclusions

Despite the enormous transformations that the world economies have gone through during the past century, Einaudi's writings in the field of public economics and finance turn out to be almost prophetic of the main contemporary challenges of economic governance in the face of the overwhelming power of global markets.

A particularly instructive example in this sense is Einaudi's sensational early intuition of the difficulty for governments of obtaining adequate tax revenues in the presence of mobility of the tax base ("The great mobility of men makes it almost impossible to claim taxes on earned income")[44] and recommendation of generalized adoption of growth-friendly (conformable) fiscal policies that would interfere the least with the forces of the free market. In fact, the issue of tax competition that Einaudi highlighted so timely is one that the OECD countries began to address so much later. It was not until 1998 that the OECD established the Forum on Harmful Tax Practices to design a series of systematic initiatives to monitor and counteract the activities of tax havens – known as BEPS (Base Erosion and Profit Shifting) activities – and published in the same year the influential report "Harmful Tax Competition: An Emerging Global Issue". And it was even later that economic science began to rigorously and systematically focus on the erosion of the tax base caused by the mobility of individuals. What is particularly interesting to note here is that the solution that Einaudi proposed – his great intuition of shifting the tax burden from income taxes to consumption taxes – is among the most frequent current recommendations of major international organizations (OECD, European Union, and some of the most influential think tanks) aiming at driving the tax mix towards the adoption of inefficiency-minimizing, growth-friendly fiscal policies.

Moreover, the guidelines of the recovery plan in Europe after the pandemic, *Next Generation EU*, include two of the themes to which Einaudi devoted great attention in his writings. The first is represented by the

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[44] Einaudi 1958: 77.

contrast to any form of limitation of competition, where access barriers to markets and excessive regulation are seen as the major obstacles to investments, productivity, and growth throughout the Union. The second is represented by the urge to invest in the future generations, starting from services aimed at early childhood, primary and secondary education, up to higher education, innovation and research. In fact, we believe that these policy recommendations can be considered the highest and noblest of Einaudi's legacies, in the spirit of elevation through the full development of each individual's attitudes and potential.

In conclusion, Luigi Einaudi as a public economist can be seen as a complex, fascinating, somewhat controversial, and ahead of his times scholar, inspired by the dream of an ideal society where the actions of each person would be marked by "a sense of duty, civic conscience, individual self-denial, respect for the others"[45] and where – as he magnificently states in *Miti e paradossi della giustizia tributaria* – the care of public goods would prevail over short-sighted selfishness:

> Men have the public services they want and value. If they are ignorant and selfish, they live like beasts in a weak state; if they are farsighted and compassionate, they reach high goals of political and social harmony.[46]

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[45] Einaudi 1972: 325.

[46] Einaudi 1940: 249.

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