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A COMMENT ON MARCHIONATTI'S "LUIGI EINAUDI, THE ECONOMIST AND THE HISTORIAN"

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ABSTRACT

In this brief note I offer my comment on Marchionatti's paper, which I greatly appreciated; I will do so by focusing on two points. The first refers to the well-known Einaudi's anti-Keynesianism, where I distinguish between what I see as a misunderstanding and a genuine theoretical dissent. The second refers to the great methodological similarity between Einaudi and Marshall to the point that I maintain that Einaudi is the Italian Marshall, for the way he understands and does economics.

Keywords: Einaudi, Keynes, Einaudi's Anti-Keynesianism, Italian Marshall.
JEL Codes: B2, B3.

1. Einaudi's anti-Keynesianism. Misunderstanding or reasoned dissent?

In this and other works by Marchionatti on the relationship between Einaudi and Keynes, he shows us how, after an initial agreement and consonance:

> the detachment between the two economists occurred in the second part of 1923 in relation to the subject of the managed currencies on the level of concrete proposals, therefore, where the theoretical frame of reference was still substantially the same. It was only after the Tract that the disagreement between Keynes and Einaudi became theoretical, as well as 'visionary' […] The Einaudian dissent with Keynes was, from the mid-1920s onwards, always sharp (Marchionatti 2000: 387, my translation).

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In particular, Marchionatti documents the strong opposition to two writings by Keynes, *Economic Possibilities for Our Grandchildren* and *Means of Prosperity*. I will dwell on the first of the two writings about which Einaudi opposes Keynes by arguing that "everything on earth is precarious without work and without saving", and that "the contempt that bursts out of those pages towards those who work and accumulate is morally and historically wrong" (Einaudi 1932: 46, my translation).

I would argue that Einaudi's critique of *Economic Possibilities of Our Grandchildren* is a case of misunderstanding. Einaudi defends the ethic of work against the ethic of hedonism, which he attributes to Keynes. But is this the case? How seriously should we take the scenario presented in *Economic Possibilities for our Grandchildren*?

The essay was published a few months after the publication of *Can Lloyd George Do It*? (May 10, 1929) and just before the publication of the *Treatise of Money* (October 31, 1930), at the height of the crisis. The famous passage in the *Economic Possibilities for our Grandchildren*:

> We shall once more value ends above means and prefer the good to the useful. We shall honour those who can teach us how to pluck the hour and day virtuously and well, the delightful people who are capable to taking direct enjoyment in things, the lilies of the field who toil not, neither do they spin (Keynes 1971-1989, CWK IX: 330-331).

should not be interpreted not as an aversion to work and an exhortation to *otium* as Einaudi read it. The utopian tone is merely a rhetorical device, nothing more. Skidelsky argued that *Economic Possibilities for our Grandchildren* "is a provocation, a jeu d'esprit […]" (Skidelsky 1992: 236), but elsewhere I have also argued that it is an important piece of Keynes's philosophy, which shows the conviction that the end of the economic problem will guarantee human beings the possibility of moral rebirth and the possibility of a happy life (Marcuzzo 2017a).

The *Essay* was an attempt to combat the pessimism of the heart and the untruthfulness of received ideas about the virtue of making money rather than spending it; it is an exhortation to spend money as a means to increase employment and finally to free men from the economic problem.

Just a couple of months after the publication of *Economic Possibilities for our Grandchildren* in a radio speech in the *Listener* (January 14, 1931) Keynes made an impassioned plea to consume more to fight the Depression:

> O patriotic housewives, sally out tomorrow early into the streets and go to the wonderful sales which are everywhere advertised. You will do yourselves good – for never were things so cheap, cheap beyond your dreams. Lay in a stock of household linen, of sheets and blankets to satisfy all your needs. And

have the added joy that you are increasing employment, adding to the wealth of the country because you are setting on foot useful activities, bringing a chance and hope to Lancashire, Yorkshire, and Belfast (Keynes 1971-1989, CWK IX: 138).

On the other hand, on the question of the Savings-Investment relationship (for Einaudi Saving determines Investment, for Keynes Investment determines Saving) is a case of disagreement motivated by adherence to two opposing theoretical approaches. Can we maintain that Keynes's arguments are still convincing? What would Keynes have responded to Einaudi's criticism?

Marchionatti, in another of his important works on the Einaudi-Keynes relationship, reminds us that "Einaudi admitted the need for a public works programme, but on the basis of traditional theory, neglecting the Keynesian theoretical novelty resulting from the adoption of the multiplier theory (Marchionatti 2000: 399, my translation).

As is well known, the basis of multiplier analysis is the induced effect on expenditure as a result of an autonomous increase in *I* (Investment), *G* (Public Expenditure), *X* (Exports) as a consequence of the change in real income in the presence of resource unemployment.

The concept of the multiplier was developed by Richard Kahn in the Summer of 1930 to support Keynes' intuition that an influx of investment in public works would lead to an increase in income in excess of the initial expenditure. In reality, it took Keynes a couple of years to incorporate the multiplier into his new theory based on the principle of effective demand, and it was only after the publication of the *General Theory* that the multiplier gained full visibility (Marcuzzo 2014). It was a difficult concept to understand and even more difficult to accept for those whose background was in orthodox theory. Beveridge, in commenting on the *General Theory*, did not understand its logic, even Harrod, who was in close contact with Keynes initially had difficulty understanding the meaning of the multiplier, because it required a total reversal of traditional reasoning and the same happened to Hawtrey.

It is therefore not surprising that Einaudi found himself in the same situation. The point is that the logic of the multiplier requires one to understand that saving is a *consequence* not the cause of the change in income, and by this route is brought to equal the initial autonomous expenditure. Even in his criticism of the *General Theory*'s originality, when he writes

Keynes, with the aim [...] of highlighting the novelty of his own doctrine, does not perish from ignoring or misrepresenting the doctrines of others, creating puppets, which never existed, of traditional doctrines in order to more easily demolish them (Einaudi 1939: 139, my translation).

Einaudi is in good company, because it is a very similar statement to the one (initial, later repudiated) by Pigou and Roberstson who continued to maintain it. I conclude this point on Einaudi's anti-Keynesianism on the Keynesian rejection of the quantitative theory of money which Einaudi deeply disapproves of.

Keynes' critique of the Quantity Theory of Money consists in showing that the transmission mechanism from monetary to real factors is broken down into a series of stages that can lead to very different results. For example, an increase in the money supply may not generate a proportional increase in demand; an increase in demand may not give rise to a predictable increase in wages and an increase in output, employment and prices. Keynes' generalisation of the Quantity Theory follows a similar line of reasoning to that employed in the theory of income determination: the results of the Quantity Theory apply under very special conditions: far from being a general proposition, it can be applied in very special circumstances that rarely occur in the real world (Marcuzzo 2017b).

My somewhat provocative question is: are Keynes' arguments against the Quantity Theory still valid against Einaudi's defence of it?

I now come to the second point of my comment.

2. In what sense is Einaudi a Marshallian?

Marchionatti's paper highlights Marshall's influence on Einaudi particularly on the theory of savings-driven accumulation, the method of successive approximations and the role of empirical research to corroborate abstract analysis, and the view of competition. There is much more to it and it concerns a commonality of method in doing economic analysis, as has been emphasised in other works by Marchionatti and others. I would like to add that Einaudi, in terms of relevance, authority and content, could be considered the Italian Marshall, for the way he understands and does economics. I believe that this is the specificity of Einaudi, more than any other Italian economist of his time.

Einaudi shared Marshall's vision of the ultimate goal of economics, his conception of modern economics as a means of reasoning and the application of the tools of economic analysis to reality, always with an acute awareness of its place in historically determined totality. It is a type of neoclassical economics that distances itself from abstract formalism and while accepting the typical tools of marginal analysis, it is a theory that is substantiated by concrete analysis and the historical framing of facts.

According to Marshall, individuals are not abstract agents, disembodied from their social or economic *environment*, but represent a class of people with an established identity. The concreteness of individuals within specific spheres in which they operate (merchants, merchant entrepreneurs), not abstract economic agents disguised as homo economicus. Similarly to Smith, for Marshall, history becomes the training ground for exercising a concrete understanding of human behaviour and societies.

Like Marshall, Einaudi approached economics with a historical sense, as Marchionatti reminds us (Marchionatti 2025, in this issue: 22): "he sought to examine facts with the 'historical eye'. This is what he considers the point of view par excellence".[1]

I therefore fully endorse the conclusion of his paper.

His contributions as a historian and economist highlight his ability to interpret the economic movement in its highest form: Einaudi has given us an articulate presentation of a lively and rich liberal vision, penetrating critiques of crucial episodes in the history of capitalism – which are still appreciated and discussed today – and a brilliant example of the application of a rigorous yet flexible method of analysis: this may be his most lasting legacy in economics, alongside his ability to translate his thinking into effective action (Marchionatti, 2025, in this issue).

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[1] This is a very rare characteristic of those who have economic sense together with legal and political sense and others as well, and embraces the facts in their entirety and ignores secondary and irrelevant criteria at that point, concentrating on one or those that are significant from time to time … Unfortunately, such accomplished historians are born at a great distance from each other; but, once born, they compel everyone's admiration (Einaudi 1936: 155, quoted in Marchionatti 2025: 22).

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