

Luigi Einaudi,  
the Father of the  
'Fathers of Europe'



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By

Angelo Santagostino

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The views expressed in the twelve chapters reflect the perspectives and convictions of the author.

Angelo Santagostino  
Ankara Yildirim Beyazit University, June 2017





# INTRODUCTION

The first part of this book is a collection of four articles, an excerpt of a speech and the text of a proposal which I wrote between 2012 and 2016:

- “The Contribution of Italian Liberal Thought to the European Union,” *Atlantic Economic Journal*, Vol. 40, no. 2, December 2012.
- “Luigi Einaudi, the Architect of Europe?” *Rivista di Studi Politici Internazionali*, July-September, no. 319, 2013.
- “Luigi Einaudi, EU Competencies, Fiscal Policy and the Missing Maastricht Criteria”, *Atlantic Economic Journal*, Vol. 44, no. 2, December 2014.
- “Luigi Einaudi, the European Federation and the ECB's Monetary Policy. As seen by Francesco Forte”, *International Advances in Economic Research*, Vol. 22, No. 4, November, 2016.
- “The Three Men who Made Europe Start”, in *Our Europe Our Future*, edited by A. Santagostino. Diyanet, Ankara, 2015. Proceedings of the event: “Europe Day” held at Yildirim Beyazit University in Ankara on 8 May, 2014.

These texts have been somewhat revised in respect of the original publication.

The last piece of writing: “Einaudi and the Future of Europe”, is the text of a proposal submitted in the framework of an initiative launched by the then president of the European Commission, Manuel Barroso, inviting Jean Monnet professors to discuss the following subject: “How we might recover from the economic and social crisis through the deepening of European integration”.

The second part contains a selection of the writings of Einaudi dedicated to the European Federation. The reader will find the list of these writings in the following pages. Those marked with a star are re-published in the present collection.

The ultimate purpose of this book is to highlight the contribution of Luigi Einaudi to the making of Europe, which is mostly unknown. Einaudi was a liberal economist and a political thinker who conceived a federal solution for Europe, in order to enforce peace in the Continent. His concept of federalism was liberal. Consequently his project for a European Federation is deeply rooted in liberal economic and political thought. The single market is the core element. A single market where goods, services, capital and people move freely. A single market with a single currency. A single market open to trade with third countries. The federal army was another pillar of the European Federation.

Einaudi not only designed the main policies and competences of the European Federation, but its institutions too. The European Parliament is the core institution, articulated in two Assemblies, shaped by the US model: a Chamber of the Representatives of the Federation and a Chamber of the Member States.

However, the European Federation was not intended to be a substitute for Member States, but to enable certain functions. Einaudi did not intend to abolish European nations but to federate them to improve their economic development and their political weight. As a liberal he did not conceive a centralized super-State but a multilevel governance where each polity had specific and limited competences.

Einaudi's European writings are distributed throughout his sixty-two years: 1897-1959. We can say that he was born a Europeanist and died a Europeanist. He was full of hopes from the very first, but rather disappointed in his last thoughts on Europe: "Hopes have vanished..." he wrote in 1959, with a clear reference to the EEC Treaty, enforced just one year before. It was too far from the European Federation he had advocated; too far, but at the same time adopting so many elements of the project he drew up in 1943-44. Today's Treaty on the functioning of the European Union, embeds most of Einaudi's proposals. However, it is the federal spirit animating Einaudi's proposals that is lacking in the elements of today's European integration. There is a decisive difference in the crisis that has been gripping Europe since 2008. The absence of a federal size meant that answers to economic policy, with the exception of monetary policy, were national not European. To a large extent this explains why economic growth has not been restored in Europe.

# WHO IS LUIGI EINAUDI?

## Chronology of his life

He was born in Carrù (Cuneo) on 24 March 1874.

He was married to Ida Pellegrini with whom he had 3 children: Giulio, Mario and Rodolfo.

He graduated in Law from Turin University in 1895 with a thesis on the agrarian crisis in England which was subsequently published in the *Giornale degli Economisti*. He embarked on a university academic career and worked as a journalist, becoming a member of the editorial staff of the Turin daily *La Stampa*.

In 1902 he was appointed Professor of Public Finance at Pisa University and then at Turin University, and in 1904 at Bocconi University in Milan.

He directed the journal *La Riforma Sociale* from 1900 to 1935. He directed the *Rivista di Storia Economica* from 1936 to 1943.

In 1903 he began writing for the Milan daily *Corriere della Sera*.

In 1919 he became a Senator of the Kingdom of Italy.

In 1925, following the resignation of Luigi Albertini, opponent of the Fascist regime, as the editor of the *Corriere della Sera*, he interrupted his collaboration with this newspaper.

In March 1935 he cast his vote in the Senate against the motion unconditionally supporting the Ethiopian war.

On 25 July 1943 he was appointed Rector of Turin University.

In September 1943 he obtained asylum in Switzerland when the armistice was declared, and returned to Italy at the end of 1944.

On 5 January 1945 he was appointed Governor of the Bank of Italy.

On 2 June 1946 he was elected to the Constituent Assembly, the body charged with the preparation and approval of the new Constitution.

On 31 May 1947 he was appointed Minister of the Budget and Deputy Prime Minister in De Gasperi's 4th Government.

On 11 May 1948 he was elected President of the Italian Republic.

On 11 May 1955 he stepped down as President and became a member of the Senate.

He died in Rome on 30 October 1961.

### **Einaudi's scientific merits**

- Member and Vice-President of Lincei's Academy;
- Member of the Science Academy in Turin;
- Member of the "Institut International de Statistique de L'Aja";
- Member of the Econometric Society in Chicago;
- Honorary member of the American Academy of Arts and Sciences in Boston;
- Member of the American Academy of Political and Social Science of Philadelphia;
- Honorary member of the American Economic Association;
- Honorary member of the Economic History Association of New York;
- Honorary president of the International Economic Association;
- Corresponding member of the "Société d'Economie Politique" in Paris;
- Vice-President of the Economic History Society of Cambridge;
- Corresponding member of the Coben Club of London;
- Corresponding member of the "Oesterreichische Akademie der Wissenschaften" in Vienna;
- Honorary degrees from the University in Paris and Algiers.

He was the author of numerous scientific publications, especially in economic matters, some of them translated into foreign languages. He wrote widely in newspapers and weekly magazines, such as "La Stampa", "Corriere della Sera" and the "Economist".

## **His thinking in a nutshell**

For Einaudi, liberalism is the doctrine of those who lay the refinement or the elevation of the human person above any other aim [...]; a moral doctrine, independent of the circumstances of time and place [...]; liberalism is a doctrine of limits. A democracy becomes liberal only when the majority deliberately refrains from exercising coercion on the persons in the fields that the moral order teaches should be reserved to the individual domain, and sacred to the person.

In economics a society is liberal and democratic only if it has the capacity to preserve economic freedom, and the freedom of action of individuals such as savers, consumers and producers.

The man morally free, the society composed of men who feel deeply the dignity of the human person, shapes economic institutions similar to itself. The machine does not dominate, does not reduce to slaves, to prolongations of itself except those men who used to be enslaved. There is a link between economic freedom on the one hand and freedom in general and political freedom in particular, on the other hand; but it's a much more subtle link to whatever is stated in the common propagandistic literature.

Einaudi was inspired by the classical liberal and federalist tradition: David Hume and Adam Smith; Alexander Hamilton and James Madison; Carlo Cattaneo, Francesco Ferrara, Camillo Benso Conte di Cavour; Benjamin Constant and Alexis de Tocqueville. Einaudi had discussions with Benedetto Croce and Gaetano Mosca; Maffeo Pantaleoni and Vilfredo Pareto; Lionel Robbins, Wilhelm Röpke, William Rappard, Ludwig von Mises, and Friedrich von Hayek. He supported the efforts of Hayek for the Constitution of the Mont Pelerin Society, of which he was a member. Along with Bruno Leoni he was the promoter of the 13th meeting of the MPS held in Turin in early September 1961. At that meeting he presented his last scientific work: "Politicians and Economists."

Einaudi influenced political thinkers of his time such as Carlo Rosselli, Ernesto Rossi, Piero Gobetti, Altiero Spinelli, Bruno Leoni and Giovanni Malagodi; and economists such as Costantino Bresciani Turrone, and Francesco Forte, who succeeded him in 1961 to the Chair of Public Finance at the University of Turin. When he ended his term as President of the Republic, the Parliament voted a law appointing him as a lifetime professor of Public Finance at the University of Turin.

To know more about his economic and political thought the reader can visit the following internet sites:

[www.centroeinaudi.it/](http://www.centroeinaudi.it/)  
[www.fondazioneeinaudi.it](http://www.fondazioneeinaudi.it)  
[www.fondazione-einaudi.it](http://www.fondazione-einaudi.it)  
[www.luigieinaudi.it](http://www.luigieinaudi.it)

To know more about his federal and European thinking continue reading this book.

# SIXTY-TWO YEARS OF EUROPEAN WRITINGS, 1897-1959

(Original titles have been translated into English)

“The United States of Europe,” *La Stampa*, 20 August 1897.

\* “The League of Nations: a Possible Ideal?” *Corriere della Sera*, 5 January 1918.

“The Dogma of Sovereignty and the Idea of the League of Nations,” *Corriere della Sera*, 28 December 1918.

*For a European Economic Federation*, Movimento Liberale Italiano, September 1943.

\* “The Nature of World Peace, The Annals of the American Academy of Political and Social Science,” vol. 210, July 1940: 66-67.

*The Economic Problems of the European Federation*. Edizioni di Capolago, Lugano 1944.

\* *The War and European Unity*, Speech at the Assemblea Costituente, 1947.

“The Uniting of the European Market,” in *Europa Federata*, Edizioni di Comunità, Milano, 1947.

“Who Wants Peace?” *Corriere della Sera*, 4 April 1948.

“The Schuman Plan” (1950), in *Lo Scrittoio del Presidente (The President’s Desk)*, Einaudi, Torino, 1956.

“On a Possible European Army” (1951), in *Lo Scrittoio del Presidente*, Einaudi, Torino, 1956.

“Types and Features of the Federation. About the European Defence Community” (1952), in *Lo Scrittoio del Presidente*, Einaudi, Torino, 1956.

“Monarchy and Federation” (1954), in *Lo Scrittoio del Presidente*, Einaudi, Torino, 1956.

“On the Timing of the EDC Ratification” (1954), in *Lo Scrittoio del Presidente*, Einaudi, Torino, 1956.

\*“Perplexed,” in *Prediche inutili*, Einaudi, Torino, 1959.

\* Prefazione, *Cronache economiche e politiche di un trentennio 1893-1925*, Vol. I, Einaudi, Torino, 1959.



**PART I:**  
**EINAUDI'S EUROPEAN PROJECT**



# CHAPTER I

## THE ARCHITECT OF EUROPE

### **Introduction**

Luigi Einaudi is the architect of what we call today the European Union: a conclusion emerging from his European writings and their comparison with the various treaties which are landmarks of the history of the European construction. The first is the Paris Treaty instituting the European Coal and Steel Community and the last is the Lisbon Treaty. Moreover, Einaudi's proposals for a European Federation are also part of treaties which have never been ratified: European Community Defense and the European Constitution.

In the following pages we will go through some of his European writings,<sup>1</sup> adding evidence of the extent to which his considerations and proposals have provided the foundations of the European treaties and how much they have shaped their structure.

### **1. A preliminary reflection on: The United States of Europe (1897)**

The event behind this article is the 1897 war between Turkey and Greece. The latter moved the war to the Ottoman Empire, over the question of the status of Crete. Greece unilaterally proclaimed the annexation of the Island. The European Powers, namely Prussia, Russia, Austria, Great Britain, France and Italy immediately intervened asking for the withdrawal of the Greek forces. As the war went on the Powers bombed the "Candiot campus" to induce Greece to stop hostilities. Einaudi sees in this joint action a first manifestation of a future European Federation. Einaudi conceives of a two-level order of powers in Europe. First-level powers have, jointly, an absolute right to war; and second-level powers have to obtain the approval of the others, or at least of one of them. Second-level powers can no longer use their sovereignty independently. The right of

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<sup>1</sup> Angelo Santagostino, 2011.

war is no longer in the hands of a single nation, but has to be the joint decision of the European Powers. The six ministers of the great powers are increasingly acting together, “as if they were a European cabinet”.

A single power still has the right to veto a decision taken by the others, so impeding their design, but little by little it will happen that one of them will have to accept the decisions of the majority and give up its right to declare war unilaterally.

Einaudi’s conclusion is that “the birth of the European Federation will not be less glorious only because it will be born out of fear and mutual distrust and not out of brotherly love and humanitarian ideals”.

More than 100 years after the publication of this article the delegates to the European Convention, charged with drafting the Constitution for Europe, sharply debated whether European foreign policy should be under the unanimity or the majority rule. Unanimity is still the rule fixed in the Treaty on European Union. In Art. 21 we read: “The European Council shall act unanimously”.

The step that Einaudi considered indispensable in those distant times in order to attain the federal level has not yet been taken. The federal level is far away and, not surprisingly, the European foreign policy is still *de facto* inexistent. The clear message of Einaudi in this article is that the pooling of sovereignty, in the form of shared sovereignty, which implies that the acceptance of the decisions of the majority is the very essence of political integration and marks the difference between a simple alliance and a federal pact. These ideas will reach their expositive maturity a couple of decades later.

## **2. The foundations of an integrated Europe**

### **2.1 The League of Nations: a possible ideal? (1918)**

In January 1918 World War I is still going on. Presidents, Ministers, Chancellors and newspapers are discussing the idea of setting up a League of Nations, to maintain peace and avoid another war which would be destructive for the whole of Europe. These are the circumstances in which Einaudi gives full substance to his early ideas concerning national sovereignty. He warns about the weakness of a confederal pact implicit in the project for the League of Nations. What is actually desired, in order to bring an everlasting peace in Europe, is much more than an alliance

among independent nations which maintain their own sovereignty untouched. History tells us much about the fallacy of the confederal solution and how far reaching is the federal way, leading to the birth of a new state encompassing the old ones. The example of the United States of America is illuminating. The constitution approved by the states in 1781 envisaged a confederal union, with each member state retaining its own sovereignty and independence. Under this constitution the 13 states underwent serious difficulties until a new constitution was approved in 1787 and enforced the following year. The difference was that under this second constitution member states agreed to share their sovereignty by creating a federal government. Under this second constitution “the United States became a giant”. Quoting Alexander Hamilton, Einaudi stresses the point that without the right to tax “power in political societies is a pure name”. Einaudi reminds us of the difficulties of the American confederation, without the right to tax or to obtain funds from the 13 member states. No one was intending to make disbursements towards its commitments. Thus the Confederation had no money for the army, postal service and railroads.

Today’s European Parliament, like the National Congress of those eleven difficult years between 1776 and 1788, has no right to raise new taxes. Furthermore, EU member states are less and less willing to transfer their contributions to the common budget. Some of them are asking for a downward revision of their contribution, while others are defending their rebate and others are claiming more funds. This is exactly what Einaudi feared in 1919 for the League of Nations. Unfortunately, one century later, this problem is unresolved. Between the end of 2012 and the beginning of 2013 the fight over the financial perspectives for the period 2014-2020 has seen behaviours quite similar to those described by Einaudi.

At the same time, Einaudi indicates some fundamental tasks of the European Federation: the army, customs, postal services and railroads. These issues will be fully developed some 25 years later when, during his Swiss exile, he will write his two fundamental European works.

Both, as we will see later, represent the only full project for a European Federation conceived before the treaties on the ECSC and the EEC.

Einaudi concludes in the following way:

The present war is the condemnation of European unity, forced on it by an ambitious empire. However, it is also the raw force behind the elaboration of a higher political unit. This must be the fruit of human effort, which is

convinced that only that which is impossible will succeed and be fortunate, but that these efforts must be simply to mask what is false as being true rather than to create ideals that are concrete, sound and historically possible.

## **2.2 The dogma of sovereignty and the idea of the League of Nations (1918)**

Is state sovereignty absolute or relative? This is the question for which Einaudi provides a clear answer in his second article of 1918, dedicated to the League of Nations. The first, as we have seen, was written before the end of World War I; the second, examined in this sub-section, was written just after its end. The Versailles Conference was about to start its work. US President Wilson had actually put on the table the project for a League of Nations: clearly a project that was quite different from the one that Einaudi had hoped for. He does not see his hint for a supranational institution reflected in Wilson's project. Conversely the plan is for the establishment of an intergovernmental organization. Pragmatically he is no longer criticizing the League but trying to find an appropriate role for this new institution.

When national sovereignty is conceived as dogma, an absolute power of every single nation, it can be turned into a quite dangerous instrument leading to war and oppression. Absolute sovereignty is incompatible with freedom. On the contrary, relative sovereignty leads to peaceful relations among states and to political and economic freedom. Moreover, absolute sovereignty is in incurable contrast with the idea of a League of Nations. His comment is that perfect and absolute sovereignty is a maximally malefic idea. Absolute sovereignty is reached only with worldwide domination, for both political and economic motivations. The progressive expansion of the German Empire is the example used by Einaudi; extending its domination over neighbouring countries and regions can be explained by the quest for security against potential enemies and the need for raw materials to be used for military and civil purposes. When two or more nations pursue absolute sovereignty, war becomes endemic as they are competing for the domination of the same territories. The search for the "vital space" is the grave of peace and of any form of cooperation among nations. The dream of German domination collapsed, however it could revive in the ambitions of communist Russia. That is why Einaudi remarks that it is absolutely important to eradicate the dogma of absolute sovereignty out of the "hearts of the people". It is thus necessary to destroy the myth of perfect sovereignty in order to allow the vital League of

Nations to be born. Absolute sovereignty destroys free trade among nations and implies economic decline and the loss of prosperity. Einaudi reminds us how, in times of peace (before WWI), national states signed international conventions and agreements concerning health issues, post and telegraph communications, industrial and intellectual property, and so on. These agreements already represented a form of relative sovereignty, limiting the legislative power of national parliaments. Einaudi remarks that unfortunately the war has swept away all these agreements. The war is ended and it is time to rebuild them. The view of Einaudi is that the projected League of Nations could have an important role in rebuilding these agreements and in attracting new members because of this perspective. He suggests international labour agreements to protect workers who will have to move from one country to another for the needs of the reconstruction of Europe, colonial agreements to protect the population of the colonies who migrated to Europe, besides international agreements in trade, navigation, ports and taxation.

These agreements will create “*integrated nations*” and

free nations which will be able to bind mutually to guarantee to themselves, as a part of a superior, institution, the true safety against the attempts of hegemony to which, in the present international anarchy, the strongest state is invincibly drawn by the deadly dogma of the absolute sovereignty.

In this article the European Federation is not mentioned. Einaudi focuses on how to make the League of Nations work. He launches a warning to Europe: sovereignty has to be conceived in a relative way otherwise the League will never work. Implicitly he says that because of the nature of the League there will not be any European federal state, but an alliance that will work only if member states set up bilateral agreements in various fields, in order to make cooperation possible. In this way an integrated system of nations will appear.

Quite probably it is due to Einaudi that world *integration* is used in respect to political and economic issues. Integration through international conventions and agreements reminds us of the functional theory of integration, developed in the 1930s.<sup>2</sup> Einaudi, a convinced federalist, provides a second best solution to create “*integrated nations*”, namely the functionalist way. Unfortunately this sort of plan B will not work.

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<sup>2</sup> See for instance: Ben Rosamond, “Theories of European Integration,” Macmillan, 2000, pp. 36-42.

### 3. The building of integrated Europe: Policies and institutions

A leap of 25 years separates the two articles of 1918 from Einaudi's two fundamental works on an integrated Europe. These were both written during his Swiss exile. In them we find the design for the future European Federation. What Einaudi proposes is an operative scheme, but not just this. He completes the theoretical analysis of 1918 and provides a draft for a future treaty: a draft whose imprint is evident in any one of the various treaties, ratified or not, composing the history of European construction. The two following sub-sections are not a guide to these two studies, but we focus on the similarities between Einaudi's proposals and the treaties.

#### 3.1 For a European economic federation (1943)

Einaudi lists and discusses the *exclusive competences* to be delegated by member states to the European Federation.

*First.* The creation of a single market without any hurdles to the free circulation of manufactured goods and raw materials. The transitional period for the completion of the liberation program should not exceed ten years. The Treaty of Rome envisaged a twelve-year transitional period (art. 8). In reality this period lasted ten and half years (January 1958 to June 1968). In the TFEU, the customs union is an exclusive competence (art. 3) while the single market is a shared competence (art. 4): Title One and Title Two of the TFEU discipline are the workings of the single market and of the customs union, on the basis of the principles laid down by Einaudi.

*Second:* Rail, sea and air transport. No tariffs and other conditions and discriminations for travellers and goods on the basis of nationality. Today these principles are embedded in Title VI of the TFEU. The EU common transport policy however is a shared, not an exclusive competence.

*Third.* Internal migration within the borders of the federation. After a transitional period the freedom of circulation and establishment will have to be granted to the citizens of the federation. In the TFEU the free movement of workers is disciplined by Title IV, Chapter 1.

*Fourth.* The single currency. The names of the national currencies could be maintained. However irreversible conversion rates (non-fractional) have to be established among the currencies of the member states. This



will be equivalent to having a single currency within the federation. Furthermore, and this is the most essential point, member states will have to give up the option of printing money. Einaudi will deepen this point in his writing of 1944. We will come back to this aspect of the federal monetary union in the following sub-section.

*Fifth.* Posts, telegraphs and telephones. Einaudi considered that these services should be administered by the European Federation in order to deliver “an unlimited easiness of communications among the member states”.

*Sixth.* Intellectual property and patents. Common regulations for contagious illnesses and animal and plants diseases. Intellectual property rights and patents are addressed in article 118 of the TFEU while article 168 deals with, among other things, “measures in the veterinary and phytosanitary fields which have as their direct objective the protection of public health”.

### **3.2 The economic problems of the European federation (1944)**

This writing can be considered as the pivotal contribution to the European federation. Einaudi enlarges and deepens the one we have seen in the previous sub-section.

He starts from the competencies to be attributed to the federation, underlining how important it is to determine their preemptory list. This is not a maximum, but a minimum: only what is strictly necessary, then the experience will indicate whether further competencies should leave the national level and pass to the supranational one. Einaudi is thus anticipating today’s concept of the light federation. This concept of a light federation is in line with the liberal concept of a light state or, more generally, of a light polity. Actually the federation is a way to redistribute public powers among different levels with a double purpose: first limiting the polities’ dimensions, and second, allocating public goods to the most appropriate governmental level. The list of federal competences includes and deepens the ones already dealt with in his work of 1943, especially the single currency. Others are added, namely: foreign trade and taxation. We will examine these three.

*Single currency.* The primordial need for a single currency, in the territory of the European federation to be constituted, stems out of the necessity to simplify payments among firms once the single market is set up.

Exchanges among federate states should not be hampered by exchange rate risks. Furthermore, having prices expressed in a single currency would induce a huge simplification, and the facilitation of payments, in money transfers and in the regulation of monetary balances.

In the 1989 Report on Economic and Monetary Union of the EEC Committee for the study of economic and monetary union, we read:

The creation of a single currency area would add to the potential benefits of an enlarged economic area because it would remove intra-Community exchange rate uncertainties and reduce transactions costs, eliminate exchange rate variability and reduce the susceptibility of the Community to external shocks.

Almost thirty years before the Maastricht Treaty he proposes a central bank holding the exclusive right to print and issue money, in the quantity they have fixed. National central banks (local branches of the federal central bank in the words of Einaudi) could only retain the right of issuing coins. For purely sentimental<sup>3</sup> reasons, he writes, the emission of coins could be allowed with a “different imprint for each state”. This is nothing other than the national side of the euro coins.

In the *Council regulation on the denomination and technical specifications of euro coins*, we read at recital 10:

Whereas giving the coins one European and one national side is an appropriate expression of the idea of the European monetary union between Member States and could substantially increase the degree of acceptance of the coins by European citizens.

The degree of acceptance corresponds to the sentimental reasons of Einaudi.

Einaudi anticipated the details of today’s European Monetary Union! A detail, however important, can only be a detail. Much more important is the essence of the monetary union proposed by Einaudi. He writes:

Whoever remembers the bad use by many states of the right to mint money cannot have any doubt about the urgency to remove such a right. [...] If the European Federation takes away from Member States the possibility of *facing public works with the groaning press of banknotes, and forces them to be entirely provided by taxes and by voluntary loans, for this it will be a finished great work*. In the work of a healthy and

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<sup>3</sup> OJEC 20 December 1997, C 386/12.

effective democracy, the rulers of the federate states cannot deceive the people anymore with the mirage of finished works without cost, thanks to the miracle of the banknotes, but they will owe, to get consent for new taxes or credit for new loans, to show how they supply real services to the citizens.

Article 123 paragraph 1 of the TFEU states:

Overdraft facilities or any other type of credit facility with the European Central Bank [...] shall be prohibited, as shall be the purchase directly from them by the European Central Bank or national central banks of debt instruments.

The two sentences quoted in italics above contain the so-called no-bail-out clause or, the prohibition of debt monetization that is so much debated in relation to the sovereign debt crisis which has affected Europe since 2011. The first was written in 1944 and the second was embedded in the Maastricht Treaty of 1993 (the date of entry into force). We leave to the reader any further consideration on this point.

However, Einaudi has not yet finished astonishing us with the biggest surprise coming a few pages after, in a sub-section whose title is: “About some theoretical doubts on the federal government of money.” This is a sort of digression in which Einaudi considers the possible consequences of what we call today an asymmetric shock: a violent crisis affecting one of the members of the federal monetary union. What should the federal authority do? His suggestion is that in these particularly serious cases the Central Bank could enlarge credit openings (this is not a bail-out) to this country or deliberate the emission of specific banknotes and set a specific exchange rate in respect to the federal currency; however the circulation of these notes should be limited to a single country. Einaudi does not articulate this statement. Furthermore he concludes that a federal state will be sure to be able to find more effective solutions to such a problem. His purpose was to warn about a possible occurrence and the consequent need to prepare the necessary instruments. That possible occurrence happened, as we know, in the sovereign debt crisis of some Member States. Resorting to a parallel currency, in the attempt to find a solution to the Greek debt crisis is an option which has been somehow advanced, however what we want to underline here is that Europe, in making a monetary union, failed to predispose the adequate box of instruments to face times of crisis.

As we know, the European monetary union was designed in the Delors Report of 1988. This plan was a remaking, with some amputations, of the

Werner plan of 1970. The EEC Treaty did not envisage the single currency.

*External Trade.* The federal authority shall have the competence on external trade. The federal Parliament will have to decide the duties applicable to imports from third countries. Furthermore, in general the federal Parliament shall have the power to decide concerning the overall commercial policy of the European Federation. The federal Parliament shall also have the right to decide the immigration policy of the Federation and establish immigration agreements with third countries. In today's EU the European Parliament, concerning the common commercial policy and immigration policy, has considerably fewer powers than the ones designed by Einaudi. However, the EU has an almost exclusive competence (Commission and Council) in the field of commercial policy.

*Taxation.* The constitutional Charter will indicate which competences shall be attributed to the Federation. The Federation shall have the right to raise taxes only in the fields under its competencies. External trade is an exclusive competence; consequently import duties should be collected by the federal administration. Production taxes should also be collected by the Federation, as import duties and production taxes are "Siamese brothers, where the ones are the others are too". Import duties, as we know, represent the EU's own resources. Article 201 of the EEC treaty indicates that "revenue accruing from the common customs tariff" is one of the so-called own resources.

### **3.3 The Schuman Plan (1950)**

A few weeks after the Schuman Declaration of 9 May 1950, Einaudi, who was already the president of the Italian Republic, from the columns of the *Corriere della Sera*, expresses his appreciation for the plan (of historical importance) and gives some advice for the Treaty to be negotiated, in order to implement the basic idea of the Declaration: setting up a common market for coal and steel between France and Germany, which is also open to the other European States.

Einaudi gives some advice for the success of the plan.

*Majority voting.* In order to be successful some requisites have to be fulfilled. The High Authority has to decide at the majority (simple or qualified is not the basic problem) and not at unanimity. Here we find an old conviction of Einaudi going back to 1918, about the concerns of

foreign policy to 1897. Only in a context of majority voting can the High Authority work, and only by adopting the principle of binding the minority to the majority which is the way to allow free governments to work.

*Source of the High Authority.* Einaudi gives an answer to his question of whether the source of the Authority should be the governments or the parliaments. He indicates the parliaments as these institutions last longer than governments. The members of the High Authority shall be nominated for a definite period and shall not be revoked by the governments or by the parliaments which have nominated them. They do not represent their countries of origin and they are invested with an authority which is different and separated in respect to that of the delegating countries. These principles have been embedded in the ECSC Treaty (arts. 9-13), in the EEC Treaty (arts. 155 and 163) and in the TFEU (arts. 244 and 250).

#### **4. Features of a federation (1952)**

In his writing Einaudi designs the institutions of the European federation and its symbol.

*The flag.* He writes:

We are already looking at a new flag which will not annul the old flags but will rescue them. National flags are bound to disappear if the new European flag is not added to them.

The European flag was first adopted by the Council of Europe in 1955. In 1983, the European Parliament adopted it. In 1985, the flag was adopted by all EEC leaders. The European Constitution Article I-8 of the European Constitution states:

of the Union shall be a circle of twelve. The flag has golden stars on a blue background.

The TFEU however does not mention the flag or any other symbol of the EU.

*The federal parliament.* The primary task of the federal parliament shall be to deliberate federal expenditures and federal taxation. There is no representation without taxation. Any tax calls for the consensus of the representatives of those who have to pay. The federal parliament will have to be elected by the population in free elections. Einaudi underlines how it will be important to also have, besides a chamber of representatives, a

chamber of the states. The chamber of the states will be working as a countervailing power to the federal government. With the chamber of representatives as the sole legislative power no one could guarantee the progressive spoliation of federate states of their prerogatives and the transformation of the federal state into a centralized super-state.

Today's European Parliament is just a bad copy of the one designed by Einaudi.

*The federal government.* There is the need for the executive power to be above the legislative power. In this case the American model, with a president elected by the people does not fit at least for a sufficiently long period of time. A European president would be regarded with jealousy by the other European premiers and presidents. The Swiss system of a Council with rotating temporary presidencies is the model he suggests. In the long run a federal council could cast some shadow over the national leaders, annotates Einaudi, but adapting to new things and institutions is done much more easily in the long term than in the short term.

The Council of the EU has worked on these bases since 1958. However on federal governments the prevision of Einaudi goes even outside the institutional architecture to march into the psychological attitude of European national leaders towards the leaders of the federation. The discussions among European leaders for the choice of the heads of the new institutions foreseen by the Lisbon Treaty tell us that his concerns were real.

*The diplomatic service.* International negotiations concerning the issues for which the federation is competent should be led by a single diplomatic representation. The federal diplomatic service will not substitute the ones of the national states; these will continue to act for the matters under national competences. Its main task will be that of maintaining international peace.

The European External Action Service was implemented with the Lisbon Treaty, 57 years after the formulation of Einaudi. The Union's External Action, according to art. 21 of the TEU, "[...] shall work for a high degree of cooperation in all fields of international relations, in order to [...] preserve peace, prevent conflicts and strengthen international security".

*The federal court of justice.* Interstate questions will be decided by federal courts and their judgements will be respected by member states.