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Luigi Einaudi, the European Federation and the ECB's Monetary Policy as Seen by Francesco Forte

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Abstract Francesco Forte dedicated three books to the figure of Luigi Einaudi. The first was published in 1982, the second in 2009, and the third in 2016. Through these books he provides a comprehensive analysis of the liberal thought of Einaudi. This article focuses on Forte's exploration and comments regarding Einaudi's views and proposals for the European Federation (Einaudi 2011) and the European Central Bank's unconventional monetary policy. Forte's analysis of Einaudi has the merit of exalting one of the most prominent and lesser known features of his thought. Einaudi appears as the architect of what we call today the European Union. However no historian, economist, or politician has ever recognized the fundamental role of Einaudi. This lack of recognition should be extended to the Eurotower banker whose unconventional monetary policy has drawn so much from Einaudi's theory of financial stability.

Keywords Luigi Einaudi · European Federation · Fiscal federalism · Subsidiarity · EU

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Introduction

Francesco Forte has written three books (1982; 2009; 2016) on Luigi Einaudi, that provide a comprehensive analysis of Einaudian liberal thought. This article focuses on Forte's analysis and interpretation of Einaudi's views and proposals concerning the European Federation. In Forte's 2009 essay on supranational governments and global markets (pp. 336-341), he explores the pioneering contribution of Einaudi in establishing the basis for what we refer to today as economics of global markets or economics of

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globalization as well as how the European confederation (with the utopian character of a worldwide federation) represents a second-best solution for avoiding a resurgence of the national state's temptation to conquer a vital space. With respect to the European Monetary Union (EMU), we examine, through Forte's presentation of Einaudian monetary theory, how this theory represents the basis of the monetary policy implemented by the European Central Bank (ECB) in order to cope with the Great Recession.

The Economics of Global Markets

According to Einaudi, as Forte writes, "The push to the expansion of operational areas of the economy, related to technological development" (Forte 2009, p. 303) was the general cause of the two worldwide conflicts that ravaged Europe between 1914 and 1945. Technological progress thus provided the opportunity to create a wide single economic area. However, there were two different ways to grasp this opportunity. The first was through an authoritarian super-state submitting the neighbouring states and their economies to its absolute power. The second way was through the creation of a "democratic federal supranational state" (Forte 2009, p. 304) acting on the principles of a free market economy and free international exchanges, which would have permitted the fusion of national markets into a wide unified single market, thus allowing the economic actors (producers and consumers) to choose between these new opportunities and those of the global market.

However, economic development, mainly technological progress, was not the only factor behind the two wars of the twentieth century. First, there is the ideological clash, the "clash of civilizations" as Forte defines it, between totalitarianism and democracy. Consequently, in order to avoid this clash, the national state must be bypassed, creating a federal overarching structure which would have allowed citizens to enjoy three things concurrently: peace, the benefits of an efficient market economy and the safeguarding of national and local cultures. Notice that in spite of not having created an European federation and as Forte points out, "the scheme of allocation of functions within the EU is largely lacking with respect to the one conceived by Einaudi"(Forte 2009, p. 306), the complex European Union entity has *de facto* attained these three objectives. We will revisit with this point in the conclusions.

Forte points out the remarkable contradiction between the Einaudian thesis of an economic logic driving toward a free society with accession to a worldwide market economy and the European economic federation project that Einaudi suggested. Einaudi lived with the disappointment of the League of Nations. Therefore, he considered the possibility of world governance as utopic. However, as he wrote, "the same creation of an European federation and, presumably, of other federations with a continental dimension", would have made wars more and more rare, until they will disappear, when the "grimy idol of the national state will get out of the heart and the minds" (Forte 2009, p. 306–7). Forte commented that "The prediction came true. There were no more major wars, but there were local conflicts, often of ideological and 'religious' nature, as theorized by Einaudi" (Forte 2009, p. 307).

In summary, technological factors are the basis of the push for globalization. In order to grasp opportunities, national states need an economic space bigger that the one under their sovereignty. If the "small European flowerbed" (Forte 2009, p. 307) looks for prosperity in peace and freedom, the federal solution is the viable one. Having established this first argument, Forte's analysis of Einaudi goes deeply into his theory of global markets. This point is even more important today than it was at the beginning of the 1940s when Einaudi wrote his two pivotal works on the European Federation (Santagostino 2015).

Forte divides Einaudi's theory into two parts: *pars destruens* (negative part) and *pars construens* (positive part). In the first one, Einaudi challenges what he calls the "false theories of excess production and vital spaces" (quoted in Forte 2016, p. 309). Actually, the law of diminishing costs, because of fixed costs and scale economies, does not imply conquering a vital space. Einaudi explains this point, arguing that above a certain minimum easily attainable size, industrial production takes place at constant or increasing costs. In other words, the long-run average cost curve is sloping downward for a short range and then is increasing or flat. Consequently, enterprises are in no way induced to increase production. If this happens, it is because the enterprise has "miscalculated or has cultivated erroneous ambitions" (Forte 2009, p. 311). Forte comments that the remedy to these mistakes is plant shutdown so as to eliminate excess production. He writes: "Errors due to incorrect calculations, because of easy credit have to be paid for with the closure of excess capacity" (Forte 2009, p. 311). In other words, closure to eliminate excess capacity has implications which go much beyond the issue of vital space.

We now come to what can be labelled as the most challenging part of Forte's analysis, namely the theory that the state that pursues economic freedoms subjugates politics to the economy. This is still a topical issue. According to Einaudi, the opposite is true. When the state tries to dominate the economy, it ends up being subjugated to it. What we see is the "enslavement of politics to big business" (Forte 2009, p. 311). Forte points out that the argument of Einaudi can be applied not only to the models of central planning typical of the communist countries or those of strong state intervention into the economy of the fascists and national-socialists regimes of his time, but also to those "planning models motivated by the public interest, intended as superior and different from that of the single subjects, individually considered" (Forte 2009, p. 313). Forte reminds us of Einaudi's observations on the nineteenth century when citizens of the countries of the world, not politicians, decided what had to be produced and at what price. Consequently the "independence of the economy from politics, in the models like the one of the nineteenth century, implied the independence of politics from the economy" (Forte 2009, p. 313).

The issue is that when economic decisions depend on political ones, when the logic is that of the instructions of the politician to the entrepreneur, at that point economic agents organize themselves though lobbies in order to obtain the best possible conditions. The final outcome is that the state, which claims to pursue public interests independent from the economic interests of individuals, ends up serving the interests of big monopolistic groups. In conclusion, the argument that the state should exert hegemony on other peoples in order to promote public interests, irrespective of any particular economic interests, determines *de facto* the enslavement of politics to economics.

Lastly, Forte reminds us how, according to Einaudi, the state occasionally acts in a quite irrational and counterproductive way through duties, import and export bans, various types of controls, and limits on immigration thereby hampering technological progress, which is the spring of globalization. Einaudi's bitter conclusion is that, without these artificial barriers due to government behaviour, the world would be a single market without restrictions on the free movement of goods and persons. We could all enjoy the best work and production opportunities existent on earth.

Market extension improves the division of labour. This is a lesson well taught by Adam Smith. Forte points out how Einaudi, in his work on the economic problems of the European federation, develops "with equal skill and greater elegance" (Forte 2009, p. 313), the theory of the development of division of labour. Einaudi's example is taken from agriculture, namely how fruit production changes as a consequence of market extension. When the market is strictly local, the three grow in the wild. Then the new demand from nearby cities calls for more production. The peasants need new techniques, which are brought to them by agronomists, new plantations appear and the shape of the tree also changes. Therefore, the widening of the market determines a chain of events: new schools of fruit growing, new technicians specialized in the production of plants with better qualities, peasants with higher skills, and a new class of merchants, some of whom are dedicated to the domestic market, and others dedicated to exports.

Forte notices that Einaudi's theory of competition gives prominence to the economics of knowledge, by linking the widening of the market to the development of technological progress and, finally, to the diffusion of education. Competition does not lead to stationary equilibrium, but triggers cost reductions through process and product innovations. However, it is possible that this natural market activity could generate a reaction from those already in the market. The correct way to react to such a situation is through intellectual protection. However, as Forte writes,

> "There are also those who resort to other methods such as trying to limit competition, looking for public protection and through agreements with other manufacturers, which are facilitated by customs barriers, as this reduces the number of competitors and circumscribes them regionally. Thus, argues Einaudi, it is easier to get work more effectively in a small State than in a big one. It is much less easy and likely the wider the extension of the State, as economic intervention in the interests of economic groups tend to dilute within a supranational State" (Forte 2009, p. 316).

Federal State and Competition

The second section of Forte's essay describes and responds to Einaudi's deepening analysis of the workings of competition in a single market and the advantages of having a single currency in that single market. The European federal state, argues Einaudi, is a starting point. The important thing is to overcome the national state, a generator of interventionism, protectionism, tensions and wars, in order to "create a network of ties between countries, from which it is impossible to get free" (Forte 2009, p. 319). We cannot help noticing how much this statement anticipates, not only the spirit but also the phrasing of, the Schuman Declaration of 9 May 1950, from which what we call today the European Union was born. Several liberal economists other than Einaudi anticipated the contents of that Declaration, Mises and Hayek among them.[1] In other words, the Schuman Declaration has heavily drowned from liberal thought. This contribution is still unrecognised.

We return now to how Forte highlights Einaudian thought concerning the mechanism of competition in the wider single European market. With two arguments, Einaudi challenges the widespread thesis in his time, but still somehow topical today, that large businesses are likely to dominate the market, excluding the smaller ones. First, in a federation there is a divergence of interests between national member states. The protection of a certain good may help the producers of that staple (grain in the Einaudi's example), but damages those producers who are using it as an input, because they have to pay a higher price. This generates a conflict of interest among big concerns. What tips the balance in favour of free trade? Einaudi indicates how consumers' interests, in the supranational State, are also part of the game. Their associations will push for trade liberalisation in order to grant lower prices for their interest holders (Forte 2009, p.321).

Second, the larger the market, the more difficult it is for producers to setup alliances in the form of cartels bound to create a monopolistic agreement. As a consequence of the combined actions of these two factors, in a single European market, competition will be vigorous. This is relevant, but not sufficient, in order to explain why big businesses will not cause the smaller ones to disappear. According to Einaudi, it is not true that big enterprises always have a competitive advantage over the smaller ones. The decisive factor, beyond that related to localisation, lies in the advantages of the division of labour. Forte explains the Einaudian though:

> "Companies can contain their size through the outsourcing of all those phases of the production process that do not affect their specialization. There is a limit to the benefits of a company's expansion represented by overly big and complex bureaucratic organizational diseconomies" (Forte 2009, p. 324).

Einaudi also criticises the thesis that big companies can eliminate the smaller ones thanks to low prices and then restrict production and enjoy monopolistic rents. Einaudi's argument, which according to Forte reveals the "analytical finesse of this scholar" (Forte 2009, p. 324), is that while it is true that big business can exploit competitive advantages, it is also true that they are forced to set low prices because of the same high level of production. In short, if these enterprises want to sell the amount of production that allows them to fully exploit scale economies, they must set low prices. However, at this point, Forte comments that although this thesis is relevant, it is possible to object that these enterprises would try to exploit markets with artificial price discrimination policies.

What about government anti-monopolistic policies? In the essays, Forte analyses, Einaudi only mentions customs protection. Here Forte reveals his wide knowledge of Einaudi's writings. In other essays, Einaudi provides a long list of monopolies created by legislation and not by the mere action of market forces (Forte 2009, p. 325). One of these is the patent system. On the basis of these writings, Forte argues that,

> "Considering the issue of patents, Einaudi could have observed that, in the case of enterprises that can operate in the large market of a supranational State, the duration of the protection period may be reduced compared to the situation of reduced markets, as the largest annual production permits amortization of the

costs of research in the shortest time and more profits as compensation for their innovative efforts." (Forte 2009, p. 326)

. However, continues Forte, Einaudi does not think that the simple reduction or elimination of pro-monopoly effects of the legislation would trigger the optimal working of the market. The legislator would have to intervene in order to avoid aggressive market conduct by the enterprises leading to unfair competition. Rules are needed, starting with those related to the publicity of prices and tariffs. From such a stance, Einaudi's views are in line with the concept elaborated by Wilhelm Röpke of "market matching interventions." This leads to the possibility that the state might run enterprises where, because of a natural monopoly, private enterprises could implement harmful market conduct. However the state would need to implement rules to induce these enterprises to adopt market and competition principles.

Einaudi believed in the opportunity to include in the new Italian Constitution a rule for the control of monopolies. As a member of the *Assemblea Costituente*, reminds Forte, Einaudi proposed an article according to which "The law is not an instrument for the formation of monopolies and, where existing, monopolies should be submitted to audit through a delegated or direct public administration" (Forte 2009, p. 327). This proposal was rejected. Forte remarked: "Liberalisation, namely the repeal of legal limits to competition that may result in (almost) monopolistic powers and public license regulations that restrict supply, generating directly oligopolistic or monopolistic situations, is part of the European task" (Forte 2009, p. 328). Forte remarks that, if such a norm was part of the European Treaty, these problems would fall under the competences of the Commission and of the European Court of Justice. If that were the case, the liberalisation process in Europe would advance much more easily, overcoming the national constricted views.

Federal State and Currency

Einaudi suggests that the European federation should be endowed with a single currency for two reasons. First, in a single market, there is need for a single currency because the monetary union will simplify the payments system. The second reason is because a supranational central bank will be a factor in monetary stability. Forte underlines how, according to Einaudi, this is the real and bigger advantage. "There are many reasons that Einaudi puts forward" (Forte 2009, p. 329), writes Forte. The first is a political factor. Once wars are abolished among member states, national central banks will no longer be obliged to print huge quantities of money in order to face the needs of a war. Actually, central banks have no capacity to deny the financial support of wars. They are obliged by politics to support the wars. Also in times of peace, the federation has higher capability, with respect to member states, to ensure price stability. In a monetary union, the contrast of interests among member states acts such that national public budget deficits tend to be smaller.

The same happens with public debt, because it represents a burden for the member states' citizens and crowds-out private debt. Einaudi shows his usual exceptional capacity to foresee problems and anticipate possible future situations (obviously, he was not a fortune teller, he merely used the logic, the logic of a genius). According to

Forte, "Einaudi argues that public opinion and the political representatives of the Member States, other than those who would emit new debt, will react" (Forte 2009, p. 339). The economic crisis that has raged in Europe in recent years has given a name to the politicians of either category and made clear to what nationality (and economic culture) belong the citizens bothered by so much remarkable recourse to debt.

Forte reminds us how the Maastricht Treaty assigns to the ECB the single objective of price stability. This situation differs from that of the Federal Reserve, where we find a combination of price stability and employment. Forte argues that this situation may reflect a factor not explicitly considered by Einaudi: "different preferences for inflation in the various Member States in relation to the various bad experiences they suffered" (Forte 2009, p. 330). Forte adds that Einaudi's prediction for an ECB policy inspired by rigour and searching for monetary stability seems to have come true.

A further issue related to the monetary union implementation is wage flexibility. Einaudi is conscious of the fact that with the adoption of a single currency, monetary policy could be more advantageous for some countries than for others. His argument is that wage flexibility is the remedy. Forte does not deny the importance of this thesis, but argues that Einaudi's thesis is insufficient to solve the problem of employment and growth in less developed areas. As an example, Forte mentions the case of Italy and the problem of the north-south gap. Northern Italy developed rapidly thanks to the progressive establishment of the then-called European Common Market (ECC). However, this was not the case for southern Italy. Moderate wage flexibility has not been able to generate growth in other regions. Forte poses the question: Would greater wage flexibility help the south? His answer is that greater wage flexibility is necessary but is not enough. According to Forte:

> "A factor apparently very important in Europe is differentiated business taxation. Regarding taxes, Einaudi argues that if Federal taxes exonerate modest incomes, less wealthy areas will pay less, receiving from the Federation the same benefits produced by public expenditures of the most affluent areas. This should foster the accumulation processes in less wealthy areas."(Forte 2009, p. 332–333)

This mechanism is based on a fiscal model typical of the U.S. or Germany. However, the European Union (EU) does not possess such a mechanism of automatic fiscal redistribution.

Forte reminds us that Einaudi's viewpoint, that the federal central bank would have influenced the distribution of credit and fostered the transfer of capital from the richest states to the less developed ones, never came true for *Mezzogiorno* (southern Italy). It came true, however, for other countries of Europe like Ireland or Spain. More recently several eastern European countries have benefited from these flows.

Why has this worked for some countries but not for southern Italy? My personal answer is that we have to look for factors outside the economic sphere, such as organized crime. Lack of investment is a consequence of another lack of investment: those in justice against the so-called "*cosche mafiose*" (Mafia clan) and similar organizations. Why this investment did not take place is another story.

The last part of Forte's essays deals with the vision of Einaudi on the protection of infant industry. Einaudi is not against protecting new enterprises, but is against protective duties. Einaudi thinks that the concept of industry is a pseudo idea. What actually exists is an enterprise. Especially when they are young, specific enterprises need forceful help for a limited period of time. Forte suggests the preference of Einaudi for a subsidy as an alternative to a protective duty. A duty is a source of corruption and also misleads consumers. This is because they might think that duties do no imply a cost for anyone. Einaudi prefers direct subsidies to pre-specified, named enterprises, with a commitment on their part to do specific things that otherwise would not have been done. A subsidy should be given until municipal, provincial, national or federal parliaments identify an "opportunity to have the cost shouldered by the taxpayers" (Forte 2009, p. 337).

As Forte writes, "Einaudi is not just examining the hypothesis of subsidizing infant firms as deserving help from the federation or from a given nation. He also considers subsidies to new firms which generate a diffused advantage to the local community" (Forte 2009, p. 338). This diffused advantage is what we call external economies. Actually, the expression diffused advantage is synonymous with the terms general advantage or general interests, terms used at that time. Forte comments that, unfortunately, Einaudi's suggestion has not been adopted. Agricultural policy is based on protective duties, not on subsidies. Regional policy has adopted subsidies, but the amount of bureaucracy would have elicited a negative reaction from Einaudi. Only recently, continues Forte, the EU has deliberated a program of railways corridors co-financed by the EU budget and by member states' budgets.

Einaudi in today's EU Fiscal Policy and ECB Monetary Policy

The Great Recession has given Forte the opportunity to write a third book on Einaudi, and draw a comparison with Keynes (Forte 2009, p. 334). I focus on a specific aspect of his work, namely EU fiscal policy and ECB monetary policy.

It is of great merit that Forte extends his analysis to the writings of Einaudi's connected with monetary stability, but not directly related to the European Federation. The results are somehow astonishing, in the sense that he shows the reader how much today's European monetary policy is linked to Einaudi's theory of money and monetary stability.

> "The theory of rule-based liberalism and of market social economy is widely reflected in the fiscal and monetary policy rules embedded into the Maastricht and Lisbon treaties. However, this took place in an unsuitable way, with a structure not coherent with the fact that the EMU is not a federation, but a *union,* or better, a *cooperative* of fiscally independent States which has to be a political union in order to cope with its tasks" (Forte 2016, pp. 201–203).

Forte's criticism of the EU fiscal rules is that they are negotiable, unlike those of the "rules-based liberalism." This fact has produced a dangerous tug of war between rigor-oriented governments and pro-flexibility ones, undermining the credibility of the European rules. Moreover, the Constitution of Maastricht did not include instruments suitable to tackle the crisis. The Great Recession has mercilessly revealed these insufficiencies. In particular, no central bank instrument was foreseen to assist states running into difficulties with managing public debt, as far as interventions on the secondary market are concerned.

Forte reflects that, in order to face these problems, the thought of Luigi Einaudi returned in a timely fashion. According to Einaudi, Forte explains, the task of central banks is to avoid the rise and diffusion of panic among the depositors. In such a situation, the undisputed norm of banking policy is that of increasing money supply immediately and without excitations, so as to persuade the public that the bank under strain is supported and has secure shoulders. This increase in the money supply has no inflationary consequences because it is used to finance healthy and productive enterprises which create new wealth. If the increase in money supply were used to keep uncompetitive enterprises in the market, this would inflict a double punishment on the country. First is the increase in the circulation of money and second is the cost of protectionism needed to keep alive these inefficient enterprises. The expansionary intervention must target those enterprises which are facing liquidity problems, not the ones correcting solvency problems (Forte 2016, p. 204). This is the financial stabilization function of central banks.

Forte questions whether it is acceptable for central banks that are prohibited from financing governments to finance commercial banks by purchasing the public debt they hold. Einaudi's answer is positive under certain conditions. This action is surely in accordance with market economy rules, provided that the public budget is structurally balanced and the specific government is pursuing financial stability.

As Forte points out, this is the issue of the lender of last resort which has been widely discussed in the years (2010–12) of the so called euro-crisis, which actually was a public debt crisis affecting the most indebted states of the EU. First, Jean-Claude Trichet and then Mario Draghi solved this issue by shaping new instruments of monetary policy correctly based on the principles laid down by Einaudi. In 2010, the ECB started to purchase in the secondary market the public bonds of Greece, Portugal, Spain and Italy, all examples of countries running huge debts. However, the innovative feature is that these unconventional instruments of monetary policy were accompanied by a conditionality, namely the adoption of measures aiming at reduction of the public deficit and overall consolidation of public finances by the concerned states. These states receive help which is not free. The price is the adoption of sound financial policies. The outcome is that the lender-of-last-resort function of the ECB is far from the Keynesian model, which does not foresee any conditionality, reflecting the contrary deep Einaudian features.

In this light must be seen the Outright Monetary Transactions (OMT) of the ECB, launched in August 2012.

> "We have to take into consideration that when Draghi presented the details of the principles of the intervention through the OMTs targeting monetary stability, the Fiscal Compact Treaty, implying the balanced budget rule, had already been approved. Therefore, the OMTs would be used to cope with a crisis of the Eurozone Member States with high debt, not to finance their deficits" (Forte 2016, p. 228).

Later, in March 2015, the ECB launched a much more decisive innovation: the Quantitative Easing (QE) program. The QE program consisted of not just purchases of public bonds of states with debt difficulties, but also included a whole variety of public bonds issued by public companies (not just those issued by states with debt difficulties), and private bonds. Total purchases on a monthly basis were initially of 60 billion euros, but later rose to 80 billion euros. The ECB's QE has the specific objective of price stability. It is an instrument to cope with inflation, raising it to a rate consistent with the ECB's definition of price stability which is close to but below 2 %.

Forte concludes that the ECB has increasingly assumed the role of lender of last resort for both the states and the enterprises. However, in both cases it is constrained support. The beneficiaries must pay a price. For the states, the price is sound fiscal policies, while enterprises have to pay the price of competitiveness. From these conditions support (in the form of purchases of bonds) is not provided. The framework is that of economic growth in a regime of monetary stability (Forte 2016, p. 219). We are in an Einaudian setting which is quite different from the Keynesian one.

As stated earlier, the great merit of Forte is the discovery of the Einaudian basis of today's ECB monetary policy. Actually, President Draghi has repeatedly asserted that the ECB is a rule-based institution and not a political one. A rule-based institution pursues its objective irrespective of any political pressure. Such an institution obeys the treaty and its statues and is deaf to the chants of the many sirens of the political world. A rule-based institution defends its independence and rejects the possibility of negotiating on the rules.

Four Considerations and one Conclusion

Centrality of the European Single Market

As Forte pointed out in his 2009 work, the European construction has won its main battle of avoiding new wars. As a direct consequence, the "clash of civilizations" (Forte 2009, p. 304) between totalitarianism and democracy has seen the victory of the latter. Nevertheless, the European construction is largely incomplete and has partially deviated from the original conception. As Forte suggests, Einaudi would not be completely satisfied. The scheme of competency allocation is concurrently "lacking with respect to the one conceived by Einaudi" (Forte 2009, p. 306) as Forte remarked and, I add, not respectful of the principle of subsidiarity. Agricultural policy is the main example. There is need, for stronger action on the part of the EU as far as research and technology is concerned. This also emerges out of Einaudi's theory of global markets, and it is to Forte's merit to have highlighted this point. Faced with the impossibility of increasing the EU budget, the only path is through a significant reallocation of funds. Agricultural protection and subsidies do not lead to growth, but incentives to research and technological improvement of industrial processes and products do produce growth. If this takes place, the "benefits of an efficient market economy" (Forte 2009, p. 338), to use Forte's words, will be strongly enhanced.

Einaudi, as seen by Forte, would have been quite critical of the protective stance of common agricultural policy and a supporter of the creation of a single European market for research and technological progress. Actually, Forte notices that Einaudi's theory of competition gives prominence to a knowledge-based economy, by linking the widening of the market to the development of technological progress and the diffusion of education.

Efficient Unprotected Enterprises for a Competitive Industrial System

Forte comments that the remedy for excess capacity, which is the consequence of overly easy credit conditions, is the closure of certain plants. This conclusion is in line with Einaudi's thought. Unfortunately, under the dominance of Keynesian thought, for too many years in the then EEC, the policy makers of too many member states protected excess capacity in state-owned iron and steel companies. The result was the granting of higher prices to European manufacturers, hampering their competitiveness and diffusing inefficiencies. Finally, excess capacity had to be cut, but this implied further costs. The history of state steel is filled with waste and damages that have affected the Europeans as workers, citizens and consumers. It was the ideological triumph of economic nationalism, ending in a defeat of which Europe is still paying the price. Had the advice of Einaudi been sought, productive resources would have been employed in a much better way, conducing to sound growth and employment (Santagostino 2015, p. 150–153).

Politics and Economics; which Comes First?

The issue of the relationship between politics and economics, is namely the fact that consumers, not politicians, decide what is to be produced which is a still unresolved question. Politicians do not give up the "pretence of knowledge," as Friedrich Hayek (1974) labelled this fatal temptation. History has provided much evidence of the damages produced by the attempt to interfere with market mechanisms, but everything indicates that politicians are distracted students in light of these teachings. A huge amount of evidence shows that any attempt by the political class to impose its ruling on the economy has led to the opposite result, making politics, and thus economic policies, the slave of mighty lobbies looking for protection from the states, such as barriers to trade, public procurements, grants and other forms of privilege. Rent-seeking sectors are the result of the domain claim of politics over the economy.

A Pro-Growth Fiscal and Monetary Policy

Through his views on Einaudi's monetary theory, Forte indicates the characters of pro-growth fiscal and monetary policies (which appear quite far from Keynesian policies). The main aim of both is to ensure stability at the macroeconomic level which is the condition for economic growth. Concerning fiscal policy, the two basic ingredients are a balanced budget and a low level of public debt. Debt is acceptable and supports growth when it is used to finance public infrastructures that represent an investment in the future of the concerned country.

Monetary policy cannot by itself generate growth but creates the conditions for sound economic growth. Forte shows how Einaudi conceived the lender of last resort role of central banks. When central banks provide financing to banks under liquidity constraints, and when the latter provide credit to efficient and competitive enterprises, monetary policy promotes investments and future growth, setting the conditions to help the economy get out of the recession by ensuring financial stability and a sound allocation of resources.

Conclusion

Forte provides an analysis of Einaudi which has the merit of exalting one of the most prominent and less known features of his thought. As seen by Forte, Einaudi appears as the architect of what we call today the EU. However, the builders (the canonic Father of Europe and their successors) have not been able to complete his design. The construction falls short of the plans. The most ambitious parts must still be elevated. At the same time, other parts, which have nothing to do with Einaudi's project, have been largely developed (e.g. common agricultural policy), damaging the equilibrium of his original project.

The sad point, which is worthwhile highlighting, is that no historian, economist, or politician has ever recognized the fundamental role of Einaudi. It is a shame and a scandal as the analysis of Forte clarifies.

Things do not end here, however. As we have seen in the section dedicated to the ECB's monetary policy, the so-called unconventional or non-standard operations find their theoretical roots in the thought of Einaudi.

Frankfurt owes so much to the economist born in Carrù. It is superfluous to say that no statement of gratitude has ever arrived from the Eurotower.

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