

# *The Legacy of Luigi Einaudi and Wilhelm Roepke*

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THE PURPOSE of this paper is to argue that the thought of Luigi Einaudi (1874-1961) and Wilhelm Roepke (1899-1966) is best described by the phrase "conservative political economy." This phrase will help distinguish the approach of Roepke and Einaudi to the problems of man and society from their extremely close friends on the economic right, the classical liberals.

I did not choose the term "conservative economics" because both Einaudi and Roepke believed that economics was a science, albeit not modeled on the natural sciences. Einaudi stressed that there are no schools in economics and revised the saying of Pantaleoni who claimed that there are only those who know economics and those who do not. Einaudi preferred to say that there are those who "know how to reason within the limits of their knowledge and those who do not."<sup>1</sup>

Everyone knows that there is a liberal economics and everyone knows that there is something called conservatism. But not everyone knows that there is a conservative political economy. Among our contemporaries the main proponents of a conservative political economy are Michael Novak, Irving Kristol, and George Gilder. However none of these three is a technical economist.

The major point of this paper is to argue that Einaudi and Roepke combined a conservative political economy with a technical proficiency in economic theory in a way that is unmatched by any contemporary thinker. Both Einaudi and Roepke adhered to what they called "the third way." Although the term is a trifle slippery, I shall use it to describe the characteristic manner of thinking of the two men in more areas than just their concern for sensible economic policy.

Simply on the surface there are some problems in terms of the identification of Einaudi and Roepke with various types of liberalism. Einaudi's association with liberalism has theoretical as well as practical party aspects in Italy. Roepke's train of thinking is associated with Ordo liberalism. But it is curious to note that Roepke correctly points out that a thinker like G.K. Chesterton called himself a liberal. Conservatism as a term has been even more confusing in Europe than in the United States.

Again on the surface, but still significant is the fact that Roepke's *A Humane Economy* (1960) starts off with two quotations from Edmund Burke. The first footnote refers to Eric Voegelin's understanding of totalitarianism as gnosticism ("The Christian faith in transcendental

perfection through the grace of God has been converted—and perverted—into the idea of immanent perfection through an act of man”) and the second footnote cites two books by Russell Kirk.

Both thinkers wished to steer a third way between a moral scientism and ignorant moralizing. The two extremes they wished to avoid were positivism and idealism. At their strongest and best these two extremes were represented by Vilfredo Pareto and Benedetto Croce. Einaudi takes the trouble to notice that Roepke in his *Social Crisis of our Time* (1942) fails to mention either Pareto or Croce. Croce, of course, later reviewed Roepke’s *Social Crisis*, and Roepke, as well as Einaudi, felt obligated to reply to Croce’s indifference to the free market as an integral part of human freedom in general.

Neither Einaudi nor Roepke was paralyzed by the demand for a “value-free” social science. They both thought that value judgments were just that, judgments in which the heart and the mind evaluated things as honestly as possible. The value judgments were corrigible and not simply subjective preferences. It is curious to note that an essay by Roepke on value judgments that was to appear in the *American Economic Review* never appeared in that journal. According to Roepke’s account the article would defend “the scientific necessity of employing a measure of judgments, which is ultimately based on a definite conception of what is wrong with the world, and of what should be done in order to put it right again.”<sup>2</sup>

The rudiments of a conservative political economy are the institutions of property rights and economic freedom in the context of family, society, culture, and religion. The best single term to describe this tradition is bourgeois economics. At its root it is grounded in the “old household economics.” This tradition begins with Hesiod and continues

through Xenophon, Plato (yes, even Plato), and Aristotle; it is crucial to the Middle Ages and the Renaissance, e.g., the treatise of Alberti on the family is one of the high points of this literature; during much of the nineteenth century it is submerged, but, as Einaudi has brilliantly demonstrated, it was preserved by Frederic Le Play. Roepke also refers favorably to the ideas of Le Play.

The old household economics takes its lights from the concept of the good household in which moral order and moral growth are the main purposes of the household. The household has a structure within which the education of the young takes place. The good person is the criterion by which all the intermediary institutions and developments are to be measured.

Einaudi’s treatment of Le Play revolves around these themes. For example, in his notice of a book about Le Play and his relation to the clergy of France, he picks out the “doctrine of the ‘providential man’ from the Catholic point of view.” This emphasis on the moral character of economic activity is characteristic of both Einaudi and Roepke. The men of good character were the remnant, the natural nobility, who might even be forced to flee into the desert like anchorites.

Einaudi thinks that Le Play was correct in stressing the elites as a natural aristocracy that flowers rather than simply the “ruling class” that circulates as Pareto would put it. The metaphors are indicative of the style of thought of Einaudi and Roepke in contrast to the more brutal and anti-rational aspects of positivism. It is this agrarian imagery which made Roepke, for example, sympathetic to the English Distributist and American Southern Agrarian thinkers. The use of such metaphors as the “aerated society,” which Roepke adopted from Gustav Thibon, and the German “dust bowl” were calculated in both their positive and negative aspects to indicate

the hostility to egalitarianism and the levelling aspects it demanded.

Roepke continually attacks "mass" and "concentration," which are the effects of metaphysical and social leveling. His metaphors are all vertical rather than horizontal, agricultural rather than mechanical. He is even suspicious of the market understood as a "mechanism" or a smoothly operating machine.

Einaudi and Roepke are both sympathetic to what might be called in Europe the "peasant" way of life which has nothing to do with medieval serfdom. Einaudi clears Roepke from the charge of being a reactionary apologist for the medieval way of life, and he goes on to agree that the land is a way of life that goes beyond calculation. He also points out that Roepke wishes to change not the compulsory external laws, but people's feelings and ideas: "a difficult task but the only one worth trying."<sup>3</sup>

The willingness to discuss the possibility of changing people's feelings and ideas, education in the proper sense of the term, is more characteristic of the conservative than the laissez-faire liberal. Preferences are not just given, and institutions are not just machines to process preferences or to preserve human freedom defined as the absence of coercion.

Roepke, like Le Play, emphasized the duties and obligations of the elite, as well as rights. Roepke argued for a hierarchical ordering based on a *nobilitas naturalis*. Employers had duties to their workers in their capacity as patrons. Roepke also stressed these aspects of business leadership and moral capacity in what is probably the finest piece of writing on the moral, if not social, responsibility of the business firm.<sup>4</sup> It is characteristic of Roepke, however, that he was not sympathetic to the idea of "co-determination," which was already surfacing in Germany.

Neither Einaudi nor Roepke can be

considered as anti-government in the abstract. Einaudi emphasizes that Le Play also stressed the provision of a day of rest on the Sabbath, and defended regional and local autonomy. There are strong similarities here to Proudhon, but also to the American conservatives' defense of federalism, which permits the sensible use of the police powers of state and local governments. To be against centralized government is not inconsistent with the idea that local communities can govern themselves in a different fashion than is appropriate to New York City. American conservatism can affirm both Substantive Due Process and police powers.

Einaudi is also sympathetic to the idea of federalism. In his short proposal for world peace, he links the idea of federalism to the only good he hopes to come out of World War II, which is the demise of the idea of sovereignty: "the idea of the sovereign state whose sovereignty is absolute and self-complete" is an idea which is doomed, a remnant of a past age.<sup>5</sup> Roepke's persistent hostility to "reason of state" in all its manifestations is part and parcel of the same attitude.

Einaudi's treatment of the traditional police powers associated with the control of the grain trade deserves a special treatment in the history of economic thought. It is a theme that recurs in his treatment of Gregory King, Galiani, and Frederic Le Play. Einaudi reminds us of the differences between the instantaneous kinds of adjustments which are permissible in models, but may not occur in economic policy. "If the equilibrium is established too late, the people die from hunger." If Keynes could argue that "in the long run we are all dead," then the approach of Einaudi is that "in the short run we *might* die" unless government acts prudently.

This is no different than the medieval scholastic teaching on the just price.

The just price is usually the free market price without fraud and collusion, but there are exceptions, such as siege and famine, when government intervenes for a higher good. This is not to deny that the problems of famine are more often than not brought on by unwise government controls and regulations or even government intention.

But here is the essence of the approach of Einaudi and Roepke. They are the philosophers of the normal. One does not take the extreme case or what may be demanded by temporary expediency as the basis for setting up legal and economic systems. The distinction that Roepke makes between conformable and nonconformable interventions is an attempt to alleviate abnormal stresses and strains without sabotaging the normal adjustment processes of the market.

One might think that Einaudi, coming from the Italian tradition of public finance, would be inclined to be cynical about all government fiscal policy on the basis that it was designed to pluck the goose without making him squawk, or in Einaudi's words, "the concept of a tribute paid without return." But he points out that though sometimes this is true, it is also possible that "the citizens are paying optimum taxes" and that a tax will raise income rather than lower it.<sup>6</sup> Einaudi also credits Antonio de Viti de Marco with a similar distinction between the models of the "monopolistic state where taxation and public expenditures are so arranged as to procure maximum gain to the head of the state or the dominant group" and "cooperative state where the public finances aim at attaining, with the least burden on the taxpayers, that result which the citizens, freely legislating through their representatives, choose to regard as advantageous."

Einaudi is neither a libertarian nor a pure majority-rule democrat. Forte, for example, has suggested that Einaudi's position is not purely "individualist" and

perhaps reflects a part of the aristocratic liberalism (paternalistic possibilities?) that can be found coming from the Risorgimento. The "liberal tradition" of the Italian right, Einaudi's own experiences, and his sense of history "led him to a more complex notion of the 'freedom of choice'" than one would get from the pure theorists of "voluntary exchange."<sup>7</sup> It was Count Cavour who set the task for Croce and *La Critica*: "Having made Italy, we must make Italians."

Both Einaudi's and Roepke's treatment of Keynes deserves more attention than can be given here. It was Roepke's awareness of the importance of the bourgeoisie which made him such an opponent of Keynesian economics. He saw that it was fundamentally an attack upon the moral foundations of a bourgeois order: prudence, savings, responsibility. His great skepticism toward the welfare state also reflected the same moral concerns.

Roepke, like the early Chicago School, did not deny that the Great Depression was a circulatory phenomenon demanding radical medicine in the form of stimulation of total demand: "Had Keynes stopped there, he would have done no more than the rest of us, who at that time advised a policy beginning with the 'spending' end."<sup>8</sup> Instead, Keynes took the exception, the emergency which demanded expediency, and made a "General Theory" which turned the micro-world upside down. The message "took" because the macro-formulation was redolent of "economic engineering with a proliferation of mathematical equations" and at the same time could turn the bourgeois world upside down.

Even if Keynesian theory can be turned into a neutral technique which can be applied to the problems of inflation as well as deflation, it has its dangers. These lie in "the damnably unmathematical circumstance that one cannot talk Parliament and public opinion into saving and

economical management, by exceptionally praising them as virtues, if all the rest of the time they are reviled as folly and sin, not to speak of modern mass democracy's built-in obstacles."<sup>9</sup>

I think it could be argued here that Roepke and Einaudi were on to a richer type of "constitutional economics" than we see today. They recognized that the "constitution" of a country includes its manners, mores, and customs, as well as its laws written in statutes or even constitutions. If self-interest is relied on to promote the market, then it becomes difficult to defend the market against the self-interest of groups and rent-seekers. People can occasionally learn their economic lessons only too well.

Perhaps the most significant controversy with which both Einaudi and Roepke were identified was their dispute with Croce. They had to repel not only the assaults of the materialists and positivists, but also, and more importantly, the assaults of the idealists who criticize the market economy in terms of either high morality or aesthetics. They had to do this at the same time that they neither denied objective morality nor beauty. Neither the market nor democracy was a guarantor of truth and beauty. It is even possible to understand Roepke's rejection of Keynes at a deeper level than technique. Keynes's modernity can be interpreted as thoroughly medieval.

In his essay on Keynes, Roepke pointed out that Frank Knight rejected Keynesianism because it was a "fashion craze" and a "return to the dark Middle Ages." This can be taken quite literally: Keynes returned to the economic ideas of the monks and Franciscans who treated money as barren, and interest as usury. Even more radically than that, it could be argued that Keynes returned to the truly dark ages of the Cathars and the Gnostics. The satirical use of Christian themes, particularly close to the Franciscan movement, makes Keynes the

philosopher of modernity with its antinomian spirit of idealism, which opposes all normality and is disgusted with ordinary people living everyday lives.

Einaudi's disagreements with Croce are very similar to the disagreements in the Middle Ages and in the early Renaissance between the Stoic and Franciscan defenders of poverty and the Dominican and Civic Humanist defenses of wealth and reasonable ambition. Einaudi is certainly willing to allow communism, if it reflects a higher calling and a voluntary calling as was the case in medieval monasticism or even in utopian socialist experiments of the nineteenth century. Forced asceticism by the state is not the same thing.

Roepke also attacked Croce for his aloofness to "*liberismo*," while at the same time recognizing Croce for his great contributions to letters. In his essay on "Ethics and Economic Life" Roepke explicitly addresses almost all the themes that are being discussed in this paper. In one brief passage Roepke sums it all up as follows:

When we characterize a system like this as a middle-class order in the widest sense of the term, this is the fundament on which the ethos of economy must rest. This system sets out to promote not only independence and a sense of responsibility in the individual but also the civic sense which links him to the whole and limits his appetite. In this field, moral authority of that thin layer of *nobilitas naturalis*, readily accepted by their fellow-citizens, proves to be indispensable—a layer to which a handful of them aspire by virtue of an exemplary life of self-denial and hard work, rigorous integrity and fine example as they ascend to a position above the classes, interests, passions, hatreds, and follies, thus embodying the moral sense of the nation and culminating in such supreme figures as *Fridtjof Nansen* or *Albert Schweitzer*.<sup>10</sup>

But the middle-class order demands defense against those who would criti-

cize it for its inability to reach the highest levels of human activity. A task which he declares above all to be the task for the economist is to make ordinary people aware of the "sense and dignity of professional life and the social status of work." Roepke adds:

... this applies in a special degree to those engaged in commerce, since it seems difficult in their case to determine the place in the social pattern which is allotted to them by virtue of their functions. Viewed from outside, their activity appears to consist solely in the repeated act of buying and selling; and it does not reveal its social purpose and intrinsic dignity as readily as that of the farmer or mariner. And how much more difficult is it to make clear to a layman the function of a stock-exchange speculator, or to overcome the almost ineradicable criticism!<sup>11</sup>

Roepke states the essential challenges in these words:

There are enough millenaries of recorded history behind us to teach us in the most unequivocal manner that whenever in their dark course the light of freedom, progress and humanity shines it was a period when a sufficient number of people had private property to enable them to throw off their economic dependence on the feudal lord, or—even worse perhaps—the state. Those periods of emancipation and enlightenment would have been impossible without the existence of a large bourgeoisie in that noble but now almost forgotten sense which brings it into a more than philological relationship with the term "civilization." It lies with us whether or not one of the longest and most brilliant of these periods shall now come to an end like all its predecessors.<sup>12</sup>

Einaudi and Roepke are philosophers of the bourgeois order who have tried to keep their heart and their head together. The Third Way is the way of reason in a time when navigation of the ship of state requires avoiding both the Scylla of collectivism, the hard rock of totalitarian-

ism, and the Charybdis of atomistic individualism that sucks us into the whirlpool of relativism and nihilism.

When Wilhelm Roepke was awarded the Willibald Pirckheimer Medal, the citation included this statement: "The measure of the economy is man. The measure of man is his relationship to God." Luigi Einaudi, in his turn, stresses the importance of spiritual liberty: "What shape, then, has a society in which men are truly free and masters of their own actions? The answer has come down to us from Socrates, from Christ. Man's liberty resides not in the society which surrounds him, but in himself.<sup>13</sup> A conservative political economy must concern itself with the conditions for internal liberty as well as external liberty.

1. "The Doctrine of Original Sin and the Theory of the Elite in the Writings of Frederic Le Play," *Essays in European Economic Thought*, ed. Louise Sommer (Princeton, N.J., 1960), 201. This much neglected essay is one of the few of Einaudi's that has been translated into English. 2. *International Economic Disintegration* (London, 1950), viii. The article appeared in the *Revue de la Faculté des Sciences Economiques d'Istanbul*, Nos. 1/2 (1942), 1-19, but was not available to me. 3. "Economy of Competition and Historical Capitalism," *Scienza Nuova*, Vol. 1, No. 1 (1954-1955), 11-12. 4. "Formative Influences and Leadership in the Business Enterprise—Invisible Factors of Production," *German Economic Review*, Vol. 1, No. 3 (1963), 17-24. 5. "The Nature of a World Peace," *The Annals of the American Academy of Political and Social Science*, Vol. 210 (July 1940), 66. 6. This section draws on Luigi Einaudi, "On the Methodology of the Theory of Tax Capitalization," *International Economic Papers*, No. 7, 50; Luigi Einaudi, "Fifty Years of Italian Economic Thought: 1896-1946, Reminiscences," *International Economic Papers*, No. 5 (1955), 16. For further discussions of the differences between the limiting cases of the "ransom tax" and the "economic tax" (or what is really the limiting case on the "ransom tax" side, the "hail-storm tax" which is purely negative in its impact with no possible redemption from the expenditure side) cf. Francesco Forte's "The Theory of Public Finance in Luigi Einaudi's Work," *International Economic Papers* (1967), 7-29. James Buchanan admits the possibility of the Einaudi position on the "economic tax" but it is clear that he is more sympathetic

to the Puviani "fiscal illusion" side of the Italian tradition. Cf. Buchanan, "La scienza delle finanze': The Italian Tradition in Fiscal Theory," in *Fiscal Theory and Political Economy: Selected Essays* (Chapel Hill, 1960), 24-74. **7.** Forte, *op. cit.*, 16. **8.** *Against the Tide* (Chicago, 1969), 172. **9.** *Ibid.*, 180. **10.** "Ethics and Economic Life," in *Standard Texts on the Social Market Economy*, ed. Watrin, Willgerodt, *et al.* (New York, 1982), 375. **11.** *Ibid.*, 371. **12.** *International Economic Disintegration* (London, 1950), 264. **13.**

Forte, *op. cit.*, 29. Neither thinker underestimated the difficulty of translating spiritual insight into practical use. Roepke put it in a manner which is still applicable today, "Was Luigi Einaudi, the great Italian economist and Christian who has saved his country from ruin after the last war, not right when he once asked that all priests in Italy should be obliged to go through a course in economics?" Roepke, "Moralism—Right and Wrong," *Christian Economics* (Dec. 12, 1961).