

Luigi Einaudi and the Bocconi Years

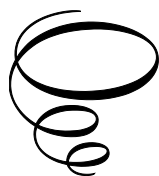
Luigi Einaudi and the Bocconi Years:

*Unpublished Lectures on Public
Expenditure 1904-1925*

By

Angelo Santagostino

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In memory of Innocenzo Gasparini,
who served as Rector of Bocconi from 1974 to 1984.
His longstanding leadership and enlightened vision
was instrumental in guiding the University
toward an international horizon.
“Let culture circulate freely, like air”, he used to say
For him knowledge mattered

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PRAESENTO VOBIS HONORATISSIMUM VIRUM, LUDOVICUM EINAUDI

What better way to introduce Luigi Einaudi to an international audience—including those already familiar with his life and work—than through the Latin oration, preserved in the archives of the Bodleian Library, delivered by Vice-Chancellor Alic Halford Smith on June 22, 1955, when the University of Oxford, during the Encaenia ceremony, conferred upon him an honorary Doctorate in Civil Law?

SIGNOR LUIGI EINAUDI, HON. F.B.A., retiring President
of the Italian Republic

En oeconomicus ille Taurinensis, en senatus italici lumen, cui civium suorum salus magna sui partes debetur, non ego scripta eius dicam, non societates quibus praefuit sapientium; satis enim commentationis habet qui honoris causa Academiae Britannicae Sodalis ascribitur, nec umbratilis doctor est; immo ad usum rerum adhibuit doctrinam – sed ita ut nihil unquam suaserit quod blandius dicatur quam verius, est eisdem fere studii deditus quibus olim Pedemontientis ille alter, Camillus de Cavour ; nosque Britannos , sicut ille, tamquam exemplar, libertatis sibi suisque proponit. Miremurne talem virum ‘Ducis’ factioni inter primos obstitisse, ad extremum denique non nisi superatis Alpibus ‘fasces saevasque secures’ vitare potuisse? Redux novae reipublicae auctoribus interfuit idemque consiliis salutaribus rei subvenit nummariae; deinde Praeses merito creatus omnia ad summi loci claritatem egit aptissime, omni tempore consulentibus praesto fuit. Nunc ad villam vitesque suas se recipiet; ‘agro’ enim ‘bene culto nihil potest esse nec usu uberius nec specie ornatius; ad quem fruendum non modo non retardat, verum etiam invitat alque allectat senectus’. Ibi poterit secum reputare domi praeter ceteros observari et diligere, foris autem in se uno eorum omnium imaginem agnoscere, qui, post amissam per xx annos libertatem acceptaque beli detrimentavel maxima, invicto tamen animo Italis pristinum inter liberos populos dignitatis locum vindicarint.

Praesento vobis honoratissimum virum, Ludovicum Einaudi, ut admittatur honoris causa ad gradum Doctoris in Iure Civili.



Einaudi in the portico of his residence in Dogliani, wearing the academic gown and cap of the University of Oxford (see centrefold for this image in colour)

Economist of Turin, guiding light of the Italian Senate—its citizens owe to him much of their security.

I will not dwell on his writings, nor on the institutions he has so wisely presided over; his achievements alone suffice to merit recognition as a Fellow of the British Academy. He is no obscure theorist—on the contrary, he applied doctrine to the service of real-world needs. Ever committed to truth over flattery, he devoted himself to the same studies once pursued by another great Piedmontese, Camillo di Cavour. We British have

long upheld ourselves as a model of liberty, just as he sought to do for himself and his fellow Italians.

Should we be surprised that such a man was among the first to oppose the faction of the *Duce*? And that in the end he escaped the "wild and ferocious fascism" only by crossing the Alps? Upon his return, he assisted the founders of the new Republic, applying his wisdom to its financial recovery with salvific purpose. Later, having been rightfully elected President, he fulfilled the duties of that high office with the utmost dignity, always open to wise counsel.

Now, he will retire to his land and his vineyards¹—for, in his own words, "nothing is more useful, or more pleasing to the eye, than a well-cultivated field. And not only is old age no impediment to its enjoyment—it invites and entices us."²

There, he will be respected and beloved, as if truly at home. But abroad, he stands as a symbol of an entire nation—one of those Italians who, after twenty years deprived of freedom and having endured the immense toll of war, rose with unyielding spirit to reclaim their ancient place of dignity among the free peoples of the world.

I present to you the most honourable man, *Ludovicum Einaudi*, to be admitted with honour to the degree of Doctor of Civil Law.

¹ His *Barolo* is among the finest and most celebrated wines of Northern Italy.

² Cicerone, *De Senectute*, XVI, 57.

PRELIMINARY NOTE

A dual event prompted me to write this book.

The discovery, in 2023, in the archives of the library of the Milanese Bocconi University but also preserved in those of the Luigi Einaudi Foundation in Turin, of the volumes containing the lectures of the Piedmontese economist, held between 1904 and 1925 at the University on Via Statuto. And the hundred-year anniversary, in 2025, since he was forced by the Fascist regime to leave it, interrupting his lectures.

“The course ends here due to the sudden departure of Prof. Sen. Einaudi.”

This is what is written at the conclusion of his last lecture notes. It was November 25, 1925.

By a singular coincidence, on that same day, he published an article titled “Towards Stabilization” in the *Corriere della Sera*, where he discussed the conditions for the stability of the lira’s exchange rate. Following that editorial came a two-decade pause, for the same political reasons. He returned to write on those pages in 1945, publishing his last article a few days before his death on October 30, 1961.

The year 2027 is the 125th *ab Universitate condita*. Today, that university—originally founded with the qualifying adjective “Commerciale,” which was later considered somewhat reductive but nevertheless retained for over a century—has reached the top ranks of international listings. It stands out for the scientific and teaching abilities of its teaching staff. These qualities are original, dating back to its foundation. One of the first manifestations of this dual rigor in the selection of professors was the appointment of Luigi Einaudi to hold the Chair of Public Finance and State Accounting on October 28, 1904. Indeed, the minutes of the Board of Directors read:

“Regarding the appointment of the professor of Public Finance and State Accounting, the president recalls that he had already mentioned the name of Professor Einaudi at the previous meeting, who undoubtedly, due to his merit as a scholar, could be appointed to that chair, but reserved the right to gather further information about his qualities as a teacher. Now pleased to declare that he has received the fullest assurances, he proposes the appointment; the Council unanimously accepts the proposal, and Professor

Einaudi is appointed professor of Public Finance and State Accounting for the academic year 1904–1905”.

“Excellence as a scholar” plus “excellence as a teacher” — not a simple sum, but a binomial raised to a high power.

That president, Leopoldo Sabbatini³, also held the position of rector.

Einaudi was not the only prestigious name. Among others was the jurist Angelo Sraffa⁴, holder of the Chair of Commercial Law, who himself served as rector from 1919 to 1926. Another distinguished professor was the economist Ulisse Gobbi⁵, holder of the Chair of Principles of Political Economy. In 1925, he joined the Fascist Party—the same year Einaudi was forced to leave. The Aula Magna is named after Gobbi. Other prominent name from Bocconi during those years is Gino Zappa⁶, founder of business economics; a classroom in the building on Via Sarfatti is dedicated to him.

³ President and Rector from the university’s founding in 1902 until his death in 1914, he was responsible for preparing Bocconi’s first study curriculum. He is also the author of the book *“Reports on the Industrial Conditions of the Province of Milan”*, Hoepli, Milan, 1893.

⁴ He is counted among the founders of Italian commercial law. A liberal thinker, in 1926—similarly to what had happened to Einaudi a year earlier—he resigned from Bocconi due to pressure from the Fascist regime. In 1931, after refusing to swear allegiance to the regime, he was forced to relinquish his chair of Commercial Law at the University of Parma.

⁵ He was the first professor of Political economy at Bocconi. In 1920, a commission that included Einaudi appointed him full professor. He served as rector from 1930 to 1934. In 1939, he was co-editor of the *Giornale degli Economisti e Annali di Economia*, directed by Gino Borgatta. He died in 1940.

⁶ He joined Bocconi in 1921 as a lecturer in accounting. He founded the Laboratory of Private Economics, which later became the Institute of Technical-Commercial and Accounting Research. He gathered around him students who would become future Bocconi professors, including Giorgio Pivato and Giordano Dell’Amore, the latter serving as rector from 1968 to 1974.

Further notable figures can be added: Gaetano Mosca⁷ (Constitutional Law), Giorgio Mortara⁸ (Statistics), Giuseppe Prato⁹ (History of Economic Doctrines), and a very young Raffaele Mattioli¹⁰ (Political Economy exercises). The long collaboration between Einaudi and Mattioli began in the rooms and lecture halls of the Commercial University.

Ultimately, thanks to the powerful combination of scholarly excellence and teaching ability, the Università Commerciale L. Bocconi was born great. True to that combination, it has remained great ever since.

Under Rector Sraffa, the Institute of Political Economy was founded in 1920. Einaudi served as its director until his “sudden departure”.

In those very same days of October 1904, he began his collaboration with *Corriere della Sera*. Thus started his twenty-year Milanese chapter, unfolding between Via Statuto—then the location of Bocconi—and the nearby Via Solferino, where the headquarters of *Corriere* was located, and still is today.

A dozen volumes preserve the transcripts of his lectures on Public Finance—notes taken by students, reviewed by the professor, and published by the University itself, in accordance with academic practices of the time. These are pages marked with underlinings and marginal notes by students.

The materials we have today cover thirteen academic years: from 1904–05 to 1911–12 and from 1922–23 to 1925–26. The intervening years are not accounted for—perhaps those lecture notes have been lost. Each volume consists of 500 to 700 pages, handwritten by the student assigned to the task. Only the last two volumes were typewritten.

This book includes selected chapters from those lecture notes—specifically, those in which our “Maestro” addressed the topic of public expenditure.

⁷ Gaetano Mosca was an important Italian jurist, political scientist, and sociologist, best known for his theory of elites. He is considered one of the founding fathers of modern political science. In 1902, he was appointed by Bocconi to teach Constitutional and administrative law, a position he held until 1918, when he replaced it with a chair in political science.

⁸ Mortara joined Bocconi in 1925 to teach Statistics. In 1936, he was appointed by the Governor of the Bank of Italy, Vincenzo Azzolini, to establish the Research Department. After his death in 1967, the Bank of Italy created a scholarship in his name, which is still awarded today.

⁹ Prato, a contemporary of Einaudi, died prematurely in 1928. He worked closely with Einaudi on the subject of Sabaudian public finances in the eighteenth century.

¹⁰ Mattioli, an economist, banker, and humanist, played a central role in the history of Banca Commerciale Italiana. He served as its general manager from 1933 and as president from 1956 to 1960. His work was crucial not only for the development of the bank but also for the Italian economy and culture of the twentieth century.

ACKNOWLEDGMENTS

The Luigi Einaudi Foundation of Turin, for granting the copyright to the lecture notes and for access to archival documentation.

The staff and management of the Bocconi University Library, for their continuous and invaluable assistance in consulting the many heavy, century-old (and older), fragile volumes in which these lecture notes are preserved.

The Bocconi Historical Archive, for granting access to documents, particularly the minutes of the Board of Directors, relating to the years of the Maestro.

The Bodleian Library for providing the text of the Oration when the University of Oxford, during the Encaenia ceremony, conferred upon Luigi Einaudi the honorary Doctorate in Civil Law.

The Museum Luigi Einaudi in Dogliani, and his director, prof. Giuseppe Martino, for providing the picture of Einaudi.

The Ministry of Enterprises and Made in Italy, for granting permission to reproduce the Luigi Einaudi stamp issued in 2012.

The Mont Pelerin Society for providing the picture of the author reproduced in the back cover.

READING EINAUDI TODAY: PUBLIC EXPENDITURE BETWEEN HISTORY AND CONTEMPORARY ISSUES

1. Dealing with Public Expenditures in Public Finance

Einaudi's course was divided into two parts. The first—covered in this book—focused on public expenditure; the second dealt with State revenue.

The reason why our attention is devoted solely to public expenditure is simple: it is unpublished material¹¹.

The pages on public revenue—far more numerous than those on expenditure—were incorporated into various editions of his *Corso di Scienza delle Finanze* (Course in the Science of Public Finance), beginning with the 1914 edition. These later evolved into *Principles of Public Finance*, whose final edition was published in 1949.

The lectures on public revenue are contemporary, analysing the various taxes of the time, and are preceded by a theoretical framework. In contrast, those on public expenditure look back in time, and not just within the Italian context. They provide data and reflections on other countries, both European and non-European—such as the United States and Japan. Here we find Einaudi as a historian of public finance. He does not delve into the theory of public expenditure¹²; rather, he remains within the boundaries of his course and avoids stepping into the territory of others. This leads him to an important first step: defining the scope of public finance as a discipline.

¹¹ The existence of these lecture notes, from 1907 to 1926, is documented in the book *Luigi Einaudi* (EGEA, 2011), which we will examine in the second part.

¹² From a theoretical standpoint, Einaudi was influenced by Antonio De Viti de Marco. Traces of this influence can already be seen in the pages reproduced here. De Viti's work, still in its early stages in the early 1900s, reached full maturity in the 1920s with the publication of his *Principi di Economia Finanziaria* in 1923. For the second edition, published in 1934, Einaudi wrote the preface, in which he acknowledged his intellectual debt to the Neapolitan economist. The *Principi* was translated into English in 1936 under the title *First Principles of Public Finance*, Jonathan Cape, London; Harcourt Brace & Co., New York.

Its task is to measure the cost of the various ways in which public services can be delivered, limiting itself to choosing, among the different methods of organizing such services, the one whose cost best corresponds to the taxes that citizens must pay¹³.

Public finance, again, “intervenes to choose among different public expenditures, and to consider which are necessary, which are useful, and which are merely opportune; public finance compares the utility of these expenditures with the sacrifice taxpayers must bear.” Ultimately, it is not the role of public finance to decide where the State should intervene, “but rather to deal only with expenditures, relating their cost to the amount of taxes levied.”

He gives the example of military spending—what we now refer to as defence spending. He essentially suggests that such expenditures should be proportionate to the national income and the size of the public budget. A relatively wealthier State can spend more than a relatively poorer one.

His reasoning leads to a relativization of these percentages: not fixed, but progressive—in other words, a tax burden that increases as the tax base, or GDP, increases¹⁴. However, as we shall see later on, the specific conditions of each State also play a role in determining how much should be spent on armaments.

In these years—the second and third decades of the 21st century—there has been considerable debate within NATO and the EU about how much should be allocated to military spending: 2%, 3%, and finally 5% of GDP. According to Einaudi, differentiated targets based on per capita GDP should be established—possibly, we may add, measured in terms of Purchasing Power Parity (PPP) to account for differences in price levels. The principle of progressivity, in fact, aims to achieve the equality of marginal sacrifice among taxpayers—in this case, among member States. Einaudi’s idea deserves to be revived. The real challenge, however, would remain how to reach an agreement on the structure of such progressivity.

2. The (Il)logicality of Tax and Spend and the Free Lunch

That said, Einaudi tackles the question of the relationship between public revenues and expenditures. His reasoning—drawing comparisons with the private economy—leads him to a key conclusion: they are interdependent. Formally, this is the essence of his argument: the State, unlike a private individual, does not possess its own income and must rely

¹³ Roberto Artoni addresses this aspect in the work we will discuss in Part II.

¹⁴ Regarding tax progressivity in Einaudi and the political aspects of defining the tax scale, Roberto Artoni’s observations on page 85 are particularly interesting.

on taxation. As a result, it determines expenditures first and revenues second. This is how the formation of the State budget works in practice: first, the total amount and allocation of expenditures is decided, and only afterward are the taxes to cover them established.

In the private economy, the reverse occurs: income comes first, and expenses are planned accordingly. However, in both cases, this is more a formal sequence than a substantial one. In private life—for example, in a household—anticipated higher expenses often lead to the search for additional income. The reverse can also occur in the public sector. Because, as Einaudi writes, “expenditures can be increased as long as the taxpayers’ sacrifice allows it—those who are compelled to pay taxes.” Therefore, public spending can become a function of revenue. Whether or not it does depend on the approach taken in economic policy.

Einaudi’s observations lead directly to what is now known as the “tax and spend” approach—a fiscal policy based on an interventionist view of the State. Under this approach, the State increases (or at least maintains) taxation levels and uses the resulting revenue to fund what it deems to be priority expenditures. Such a policy can also be implemented through public debt issuance.

Recent examples of tax and spend policies in Italy include the Citizenship Income¹⁵ (Reddito di Cittadinanza) and the 110% Superbonus¹⁶. Both were largely financed through public borrowing, increasing the fiscal deficit via a practice known as “budget deviation”. In essence, the State, based on a government decision later approved by Parliament, spends more than initially planned, thus deviating from its programmatic commitments.

Criticism of the tax and spend principle comes from liberal quarters, where it is seen as an overreach of the State into the economy, reducing space for private enterprise. From a liberal perspective, tax and spend also fosters the illusion of a so-called “free lunch.” That is, when the government provides a good or service—tangible or intangible—to an individual or target group without asking for any payment (or only a symbolic one), society as a whole still bears the cost. This is because such goods must be financed by taxpayers—either the current ones, if covered through higher taxes, or future ones, if funded by public debt.

Keynesian economists, by contrast, argue that a “free lunch” can emerge from sound public investments—projects with such high returns that they exceed their costs. In doing so, however, they merely restate a

¹⁵ A program of economic support and social inclusion introduced in Italy by the first Conte government in 2019

¹⁶ A tax incentive introduced by the Conte II. The measure consisted of a 110% tax deduction on expenditures incurred for specific building renovation works.

basic rule of private investment: the present value of returns must exceed the investment cost—in other words, the internal rate of return must be higher than the interest rate. Even so, such public investments still require upfront financing—and someone must provide the necessary resources. In principle, a surplus—defined as a return exceeding the initial outlay—could effectively constitute a ‘free lunch’. Such a surplus might derive from industrial investment by State-owned enterprises generating significant profits, which could then be earmarked, for example, for poverty alleviation programs. Nonetheless, empirical evidence suggests that losses are considerably more prevalent than profits in the case of State-owned enterprises.

Not even development aid constitutes a free lunch: when a country receives aid, it comes at the expense of investment in the donor country. The Marshall Plan, for instance, was a free lunch for Europeans—but one paid for by American taxpayers. Similarly, the Next Generation EU program, in its grant component, might be presented (as some politicians have tried to do) as a free lunch—but the funds come from the EU budget, which is funded by member States, and ultimately, their taxpayers.

That said, to be intellectually honest, it must be acknowledged that throughout humanity’s long and complex history, there have indeed been a few instances of a “free lunch.” But they are rare—two or three at most—and certainly not recent. The first dates to the 13th century B.C., when the Israelites, in search of the Promised Land, fed on manna for forty years. Humanity had to wait for the arrival of the Savior of the World for a second and third occasion: the Multiplication of the loaves and fishes, and the Wedding at Cana—though in the latter case, it was more of a free drink than a free lunch.

3. Tied Hands: The Limits of Government Intervention

Government, Einaudi explained to his students, often has its “hands tied” when it comes to public spending. Governments are not absolute masters in determining expenditures. His metaphor of tied hands referred to what he described as a “striking similarity” among the expenditures of different States. That is, there exists a set of expenditures that are essential to the very existence of the State—unavoidable costs, such as military spending or, due to the social changes unfolding in those decades, pensions expenditures.

In short, a government may find its hands tied either by laws enacted by previous administrations or, paradoxically, by its own new structural spending commitments. These were ideas that Einaudi expressed

only in embryonic form in 1904. Some forty years later, he would go on to develop them more fully himself. Others, from the early 1960s to the early 1980s, would further elaborate on them. Let us now explore how that evolution unfolded.

It was between 1946 and 1947 that Einaudi implicitly returned—to on two separate occasions—to the concept of tied hands. The first time was in a negative sense, referring to something that should be removed in order for an institution bound by constraints to properly fulfil its role. The second time was in a positive sense: tied hands as constitutional rules to guide and constrain government decisions on public spending. In doing so, he elevated the concept of tied hands to a new and higher level, endowed with constitutional dignity.

In the negative sense, he expressed the concept in his role as governor of the Bank of Italy. In the 1947 Annual Report, he explained that the increase in money supply could not be attributed either to the treasury minister or to the bank's governor. Their operations had not caused any significant increase in monetary circulation. Their actions had, in fact, been neutral.

“...Whose fault is it, then? For now, let us be content to blame that mysterious figure the ancients called *Fate*...”

He clarified what he meant by *fate* through five rhetorical questions:

- Could the Bank refuse to provide the Allied forces with funds in banknotes, which they obtained by first issuing *AM-lire*?
- Could it refuse to discount the notes issued for compulsory grain stocks and other essential commodities?
- Could it refuse to pay the sums owed to the Italian Foreign Exchange Office for purchasing foreign currency from Italian exporters—currency those exporters were required to surrender?
- Could it refuse to reimburse the deposits held by credit institutions, when those banks had to meet withdrawals from their clients?
- Finally, could the Bank of Italy, as the State's treasurer, refuse to pay the government the sums it held on its current account?

From these considerations, it clearly emerges that the Bank of Italy, when it came to controlling the money supply, had its hands tied by existing constraints. Unbinding them was a necessary condition for allowing the Bank to fully exercise control over the money supply and, consequently, over inflation. In short, central bank independence was seen as essential for effective monetary policy.

As mentioned, the year was 1947.

In 1983, economists Robert Barro and David Gordon¹⁷ argued that discretion is no guarantee of sound monetary governance. The solution, they suggested, lay in establishing independent institutions—in this case, a central bank governed by credible rules.

These ideas were later echoed by Mario Draghi during his presidency of the European Central Bank, when he repeatedly emphasized that the ECB is a rules-based institution, implicitly contrasting it with a discretion-based approach:

“We are a rules-based institution. We act within our mandate and according to the rules established by the Treaties.” (2013)

In a positive sense, he returned to this issue as a member of the Constituent Assembly. Einaudi worked to have this concept enshrined in the Republican Constitution in the form of a commitment to a balanced budget. This resulted in Article 81, which was later amended by the Monti government in 2012.

Because it was the result of a compromise, that article was based on a tacit initial assumption, reflecting Einaudi’s thinking namely, the balanced budget referred to the forecast budget—the one presented by the Government and approved by Parliament—and included an explicit provision that every new spending law must specify the means to cover it.

Article 81 could only function properly starting from a balanced budget; this was its spirit. In practice, however, it did not work.

In 1952, as President of the Republic, Einaudi lamented this situation in a famous note to Minister Giuseppe Pella¹⁸, explicitly appealing to the spirit of Article 81, which he believed had been betrayed.

Although he did not achieve a balanced budget, during his years as President, his vigilance over public expenditure significantly helped to contain the State’s budget deficits.

In 1962, James Buchanan and Gordon Tullock¹⁹, founders of the Public Choice School, emphasized the importance of constitutional rules for public budgets, such as constraints on spending or deficits.

¹⁷ A Positive Theory of Monetary Policy in a Natural Rate Model," *Journal of Political Economy*, University of Chicago Press, vol. 91.

¹⁸ Luigi Einaudi, “Lo Scrittoio del Presidente” (The Desk of the President), Giulio Einaudi Ed., 1956, Torino.

¹⁹ “The Calculus of Consent: Logical Foundations of Constitutional Democracy”, Liberty Fund (reprinted) 1999.

4. Convergence in the Structure of Public Expenditure

Einaudi pointed out to his students how a certain uniformity in the distribution of public expenditure could be observed among different States. He supported this by providing budget data from Italy, the United Kingdom, and the United States for various periods in the second half of the 19th century, as well as data from the French budget for the year 1900. This was his conclusion:

“We have examined a statistical overview of the expenditures of modern states in order to draw some considerations from the current state of affairs. One such consideration is the following: public spending is structured in such a way that one portion of revenues is used to pay interest on public debt, a second, more significant portion is allocated to national defence, and a third portion covers the entire apparatus needed for tax collection, leaving only a modest share for public services in the proper sense”.

Interest on public debt, national defence, and tax collection costs are therefore the expenditures with the greatest budgetary impact. Far more limited—almost residual—are those allocated to actual public services.

Table 1
Public Expenditures as a Percentage of Total Budget

	Italy 1862- 99	France 1900	England 1903	United States 1791-1901
Public debt	42	29	34	56
Defence and Navy	22	35	50	22
Collection	12	-	1,5	-
Public services	11	-		10
Pensions	4.4	2.5		6.8

This table presents the distribution of public expenditures across various categories, expressed as percentages of the total government budget. It highlights the allocation of funds to key sectors such as debt interest payments, national defence, tax collection administration, and public services. The data underscores the significant portions of the budget dedicated to servicing public debt and maintaining national defence, often leaving a smaller share for other public services. Despite the non-uniformity

of the periods compared, the similarities in public expenditures across the countries under examination are clearly evident.

At the beginning of the 2020s, the situation is described by the following table:

Table 2
Public expenditures, percentage of budget totals, 2024-25

	Italy	France	England	United States
Public Debt Servicing	41,7	9,4	8,2	16,7
Defence	3,9	10,3	4,5	13,1
Pensions	26,1	11,9	9,2	22,4

Sources: Italy, Ragioneria Generale dello Stato (State General Accounting Office), France, Agence France Trésor (French Treasury Agency), England, Office for Budget Responsibility, Ministry of Defence, United States, Government Accountability Office, U.S. Senate Committee on Armed Services, Social Security Administration

5. Cross-National Comparison by Category of Public Expenditure

Einaudi's next step is to analyse, within a broader international comparison, specific categories of public expenditure: sovereignty and legislative chambers, public debt and pensions, tax collection, diplomatic and consular services, military, justice and public security, education and instruction, public health and welfare, public enterprises, and public works.

In these pages, we will focus on those expenditures that are most relevant for a contemporary reassessment, as they remain highly topical. These include expenditures related to sovereignty—nowadays referred to as the costs of politics—public debt, military spending, and expenditures for State-owned enterprises.

5.1 Sovereignty and the Civil List: Do republics cost less than monarchies?

The term “sovereignty” here is understood, but only at first sight, as we will see shortly, in a different sense in respect to the concept on which Einaudi would later reflect—beginning in 1918 and repeatedly, with great vigour, for the rest of his life: “absolute sovereignty,” seen in a negative light. In his final lecture at Bocconi University, on November 25, 1925, he

developed a contrasting concept in a positive sense: “magna sovereignty.” Two antithetical concepts.

Expenditures for sovereignty refer to those concerning the head of an absolutist State, whether or not a monarchy. Already at the beginning of the 20th century, these expenditures represented “a minimal part” of public budgets, whereas “in the past they represented the heaviest burden.” While addressing these expenditures, Einaudi introduces the category of “civil list expenditures.” Both refer to public spending allocated for the upkeep of the royal family or the president of the republic, covered by public funds to support the institutional and representative functions of the figure of government. However, there is a fundamental difference between the two: while the former are expressions (decisions) of the absolute State, the latter are manifestations (votes) of a Parliament.

This is not merely a historical reference. There is more to it. The influence of Antonio de Viti de Marco begins to emerge, with his distinction between the monopolistic State and the cooperative State²⁰. The historical reference, with the contrast between “sovereignty expenditures” and “civil list expenditures,” aligns with De Viti’s then relatively recent model. The former characterizes the monopolistic State, while the latter belong to the cooperative one. Einaudi provides De Viti’s theoretical model with historical background. Sovereignty expenditures are typical of the absolute State, holding absolute sovereignty.

The Italian royal family, tells us Einaudi, received, in those years, sixteen and a half million lire. However, the *lista civile* also covered “the maintenance costs of all the royal palaces.” Einaudi does not provide this latter figure—likely because it was not available. Applying the lira revaluation coefficients, that sixteen and a half million corresponds to approximately 82.5 million euros in 2025.

In the 2025 draft budget of the Quirinale, the allocation from the State budget for the annual endowment of the Presidency of the Republic amounts to 230 million euros (although the breakdown of this expenditure is not disclosed), out of a total budget of 389 million euros—making up 60% of it. The President of the Republic is entitled to a gross annual salary of approximately 239,000 euros. Sergio Mattarella chose to reduce his salary to the level of the pension benefits granted by INPS (National social security institute) for his years as a university professor, approximately 179,000 euros gross per year.

It is not possible to say to what extent the 82.5 million euros allocated to the royal family are comparable to the 230 million allocated to the presidency of the Republic. Certainly, the latter figure does not include

²⁰ “The Theoretical Character of Public Finance”, *Giornale degli Economisti*, 1888

the costs of maintaining the presidential residences (in addition to the Quirinale, also the Castelporziano estate), which are listed in another section of the budget with an allocation of around 20 million euros. Personnel-related expenditures amount to 107 million euros. The compensation of the Secretary General is not disclosed.

The expenditures in the Italian State budget (2025 Budget Law, based on accrual accounting) amount to 915 billion euros. The incidence of the “*lista civile*” is therefore 0.04%.

Total estimated costs of the British monarchy for 2024–25 amount to 500 million pounds. UK government spending in 2024–25 is around 1.2 trillion. Consequently the British civil list represents less than 0.05% of UK government budget.

If we go to France, we find that Élysée Palace budget for 2024 is around 125 million euros. Total French government spending in 2024 is approximately 500 billion. Thus, the presidency’s cost represents about 0.025 % of the total budget.

All this, much to the dismay of those who claim that monarchies are far more expensive than republics. Sometimes, it’s the reverse. As in the case of Italy, where the civil list of the Republic is relatively more expensive than that of the British monarchy — and even more than that of the former Kingdom under the House of Savoy.

5.2 Expenditures for Legislative Chambers

Back then (1904), the “legislative chambers” cost 200,000 lire per year—equivalent to roughly one million euros in 2025 values. However, there was a fundamental difference: their members did not receive any compensation. Einaudi raised the issue of whether or not it was appropriate to pay representatives of the nation but ultimately left the question open.

In 1919, once members of Parliament had started receiving a salary, Einaudi was appointed Senator of the Kingdom. Since he was already receiving compensation from the State as a university professor, he never collected the senator’s salary, as he did not consider it proper to be paid twice. At the beginning of the Republic, the Senate administration asked him what to do with the amount that had accumulated over the years in a savings account. Einaudi instructed that it be donated to charity.

In 1955, at the end of his presidential term, the government appointed him lifetime professor of Public Finance at the University of Turin. He accepted on the condition that it would come at no cost to the

State. He held the chair until just a few months before his death, at which point he proposed Francesco Forte²¹ as his successor.

The budget of the Chamber of Deputies for 2025 amounts to 985 million euros. Of this, 84 million cover the allowances and expense reimbursements of the deputies. For the Senate, the figures are as follows: total amount 664 million euros, of which 14 million are allocated to allowances and reimbursements. The gross salary of a life senator is approximately 14,300 euros per month, the same of the elected ones. Net of the remuneration for the “representatives of the nation,” the cost of the “legislative chambers” (2025) is around 1,500 million. The expenditures for the “*lista civile*” and the “legislative chambers” together (2025) amount, approximately, to 1,880 million. Therefore, the cost of politics accounts for about 0.2% of the State budget.

5.3 Public Debt and Inflation: The Case of Milei’s Argentina

In Milano, Einaudi explained to his students, “the expenditures for consolidated and redeemable public debt amount to more than 560 million lire, but there are also other expenditures for amortization quotas and variable debts, which raise the aforementioned total to 600 million lire.” Einaudi wrote about the situation of Italy’s public debt in a detailed article published in *Corriere della Sera* on February 26, 1904, analysing its composition.

In 1903–1904, the budget of the Kingdom of Italy amounted, in terms of expenditures, to about 1.2 billion lire—roughly 32.5 billion euros in 2025 values. The cost of servicing the public debt accounted for 50% of the Kingdom’s budget. As previously noted, the average value of this figure between 1862 and 1899 was around 46%. In fact, in the early years of the 20th century, Italy’s public debt had increased significantly. The reasons become partly clear from a closer analysis of public expenditures. Pension spending reflected the emerging welfare state, as did expenditures on healthcare and education. Public works reflected Italy’s aim to modernize its infrastructure. Military spending related to army modernization. A substantial portion of these expenditures led to budget deficits, which were financed through public debt.

In 2025, public debt servicing costs reached 106 billion euros, representing approximately 11% of the total State budget.

²¹ Economist and politician. He was minister of Finance (1982-83). A scholar in Public Finance, he studied and researched at Virginia School of Political Economy (Public Choice). He authored books on the liberalism of Luigi Einaudi. The last one was: “Einaudi versus Keynes”, IBL, 2016, Milano.

Beyond fiscal arithmetic, Einaudi formulated what may be described as an *ethics of the State*, grounded in responsibility, transparency, and constitutional fidelity. Public debt expenditures, including pension obligations, were not contingent policy choices, but constitutional commitments. The State, he argued, could not repudiate them “without violating public faith.” Any such violation would compromise its credibility and “in times of need it would no longer find lenders willing to provide funds.”

He returned to this theme in 1946–47, during his time as a member of the Constituent Assembly tasked with drafting the republican Constitution, following the institutional referendum of 2 June 1946. In that context, he advocated for the inclusion of a *gold clause*—a legal provision linking debt repayments to the value of gold or to a stable international currency. This clause, he maintained, would protect individual savings and shield creditors from inflation-induced monetary depreciation. For Einaudi, the State’s inviolable duty was to preserve the real value—the purchasing power—of the currency it borrowed and to honour its commitments accordingly.

Yet the Assembly rejected the proposal. In an article published in the *Corriere della Sera* (27 May 1947), Einaudi reflected bitterly on the prevailing constitutional logic:

“The overwhelming majority of the assembly rejected the proposal; and it was only logical that they did so, because the Constitution is inspired by the idea that one must indeed enshrine principles and make promises—provided, however, that such principles are expressed in terms so vague as to allow for the most disparate interpretations, and such promises are formulated so loosely that it is always possible to claim they have been fulfilled, especially when, in substance, they have been violated. It would be unfair to label such conduct as hypocrisy.”

This passage encapsulates Einaudi’s conception of the ethical foundation of democratic government: not in lofty proclamations or symbolic promises, but in concrete, binding obligations. For him, the moral authority of the State derived from its ability to honour its word—not in form, but in substance. In this light, public debt became not merely a financial matter, but a test of civic virtue and institutional integrity. Such was his ethics of statehood: binding commitments, not vague promises!

According to a study by Università Cattolica of Milano²²: Italy (1945–47) is among the five countries who, in the aftermath of World War

²² S. Bernardini - C. Cottarelli - G. Galli - C. Valdes, *La riduzione del debito pubblico: l’esperienza delle economie avanzate negli ultimi 70 anni* (Public Debt