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**John Maynard Keynes,
Luigi Einaudi and Guglielmo Ferrero:
comparing three theories
on the consequences of World War I**

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Ai miei genitori e alla mia famiglia,

il mio sostegno e la mia forza.

A Edoardo,

che possa crescere forte e libero.

A Douglas,

il mio angelo custode.

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INTRODUCTION

The objective of this thesis is to analyze the economic, political and social consequences of the Peace of Versailles through the filter of the perspectives and convergences/divergences of three great intellectuals of the 20th century: the English economist Lord John Maynard Keynes, the former President of the Italian Republic Luigi Einaudi and the Italian historian Guglielmo Ferrero.

In addition to causing enormous losses of human life, the Great War also triggered profound economic upheavals. In fact, it determined the rise of powers such as the United States, to the detriment of European states, as well as forms of state interventionism in the economy, of unprecedented scale. At the end of the war, it was clear that these were changes that were not easily reversible, given that the balance between the powers had changed and the problems that arose from the conflict persisted.

The analysis will concern the devastating implications of what Keynes defined as the “*Carthaginian peace*” wanted by the victorious countries, France in the lead, to humiliate Germany. With the paradox, after the signing of the Treaty of Versailles, of being the emblem of the financial elite pointed out by the nascent National Socialism not as the one that tried to stem the economic effects of the defeat, but as the scapegoat of the poverty and hyperinflation that struck the Weimar Republic, until sinking it, paving the way for Adolf Hitler.

There is the guilty myopia of the Europe of the winners, incapable of looking beyond a logic of revenge towards the German people and their warlike and losing rulers. But there is also the negative role played at Versailles by US President Woodrow Wilson, incapable of “reading” the dynamics of the Old Continent, resurgent nationalism,

relations between states. His paternalistic perspective, his “religious” approach, as a judge who establishes good and evil a priori and follows his own mental scheme, have contributed to the failure of a lasting peace. And his ignorance of diplomacy and of the subtleties, ambiguities and pettiness of many European leaders proved to be a further element of confusion and, ultimately, de facto failure of peace.

Specifically, the first chapter of the thesis provides a historical and economic framework of Europe after the First World War, with particular regard to: the most immediate effects of the conflict (high number of victims, greater presence of women in the world of work and the reduction of international trade) and the collateral effects, due to the reconversion of the economy after the war and which caused high inflation; inter-allied debts, war reparations and the worsening of the social question; the structural changes made to the international economy and the conditions contained in the Treaty of Versailles.

The next three chapters consist of an *ad personam* focus on the three characters and the contribution of their theories, examined to fully understand the consequences of the First World War.

In *primis* we will focus on the figure of Lord John Maynard Keynes and his ideas and beliefs regarding the consequences of the Great War. Starting from the economist’s description of the attitude of the Big Four in the context of the Paris Peace Conference (Wilson, Clemenceau, Lloyd George and Orlando); passing first through his criticisms of the Treaty of Versailles, the humiliating impositions imposed on the Germans (Carthaginian peace) and its consequences; then for the alternative economic proposal of the English economist (more moderate reparations requested from Germany, elimination of inter-allied debts and free trade in Europe); arriving at the analysis of the

debate that will emerge in the post-war period regarding the economic consequences of peace and the crucial premonitory role of Keynesian theories.

In the third chapter, the characteristics of the context of intellectual development (Turin School of Economics) and the foundations of Luigi Einaudi's liberal thought will be outlined, as well as the variations that it will undergo over time. Subsequently, the following will be investigated: the Treaty of Versailles and the conditions imposed on the Germans in the Einaudi ideology; his idea of the League of Nations - based on the American model - and the reasons why, according to him, it was necessary to overcome the dogma of absolute and perfect sovereignty. We will continue with: social issues in Italy in the post-war period from Einaudi's perspective; Einaudi's skepticism towards attempts to take control of the banks. The chapter will end with the controversies directed by Einaudi towards state interventionism in Italy after the Great War.

The fourth chapter sees the Portici historian Guglielmo Ferrero as the protagonist. In particular, the discussion will start from his theory of "modern war" - inherent to the means used, the causes and consequences of the conflict - and from his proposal for a "*Latin federation*". The following will then be explained: the reasons why, according to the Italian historian, the way in which the negotiations of the Treaty of Versailles were conducted - which he defined as the '*tissue paper treaty*' in his book *The Tragedy of Peace* - would have had negative repercussions in the future; its legitimacy theory; the positive role of religion and the importance of self-regulation in Ferrero's thought.

Before moving on to the conclusions, the excursus will concern the main convergences and divergences that emerged from the analysis of the theories of the three intellectuals regarding the measures to be adopted to contain the negative effects deriving from the First World War.

CHAPTER ONE

The World War I and the Conference of Peace of Paris

1.1 The economic consequences of the war

The Paris Peace Conference (18 January 1919-21 January 1920) was established after the First World War, given its devastating effects, to address the need to settle wartime affairs. It was attended by the foreign ministers and presidents of the victorious countries (the Entente, formed by the United States, France, Great Britain, Italy and Japan), involving the defeated countries (the Central Empires, i.e. Germany, Austria-Hungary and the Turkish Empire) only for the final signature. There was a widespread belief that the First World War (July 1914-November 1918) would be a lightning war (*Blitzkrieg*), which would end quickly¹. On the contrary, the war consisted of a long and hard positional war, the soldiers were stuck in the trenches and the outcome of the war would be determined by who was more economically powerful, as the efforts were aimed at producing everything needed to fight the war. The end of the war came on 11 November 1918, the date on which the armistice was signed by Germany, imposed by the Allies.

Looking at the more immediate effects of the Great War, i.e. directly caused by it, we can highlight some of them. Firstly, the high number of casualties (around 10 million) associated with the war alone, in addition to the millions of deaths/injuries caused by the many epidemics (such as Spanish fever) and famines after the war. In

¹ De Simone, E., (2014), *Storia economica: dalla rivoluzione industriale alla rivoluzione informatica*, 5th ed., Franco Angeli, Milan.

addition, the land where the fighting took place (mainly France, Belgium and Poland) suffered unavoidable material damage. Another phenomenon resulting from the many casualties was the increased presence of women in the world of work who, previously employed almost exclusively in agriculture, had to take up traditionally 'male' jobs in offices and factories. This led to the emergence of the first feminist movements (e.g. the English suffragettes). Finally, as merchant ships continued to sink and the war imposed certain restrictions, international trade was sharply reduced. It was thanks to this that smugglers and hoarders became rich through the accumulation/sale of necessary products mainly through the black market. These dynamics contributed to the emergence of a more general phenomenon, namely the fact that some productive activities were destroyed and reconverted into war activities.

There were also certain collateral repercussions of the First World War that, although not producing effects directly related to the war, manifested themselves in the years following it. Between 1920 and 1921, the countries that had taken part in the war had to face the 'reconversion crisis', i.e. they had to convert from a war economy to a peace economy. Thus, mainly the industries that were dedicated to producing war material ended up going bankrupt, and along with them many banks that had financed them, or had to undergo profound changes. Let us recall, for example, the case of the Ansaldo² company in Genoa, a manufacturer of war material, which had received funding from the Banca Italiana di Sconto, and which had grown exponentially thanks to the conflict. At the end of the war, in 1921, as the Banca Italiana di Sconto went bankrupt, the state intervened to save Ansaldo by restructuring it. Individuals, being

² *Ibidem*, p. 177.

uncertain about the future because of the war, began to adopt behaviour aimed at saving a lot. Once the conflict was over, there was a recovery in consumption, also in the textile and mechanical engineering sectors, and an increase in demand, resulting in a crisis of overproduction, especially in the large producing countries (e.g. the United States). There was a fall in prices, many products remained unsold, and the consequence was a huge increase in the unemployment rate.

From the outbreak of the conflict, all the countries involved experienced high inflation, which gradually increased in the following years. The causes for these sharply increased prices were the rising production costs, the reduced supply and the increased number of paper banknotes in circulation. The sharp rise in production costs was rooted on the one hand in the call-up of men to arms, which reduced labour and increased wages, and on the other hand in the difficult sourcing of raw materials, the price of which rose sharply. On the other hand, analysing the causes of the reduction in supply, as industries were focused on producing war material, manufactured goods were scarce. Due to the famines that took place during those years, there was also a considerable decrease in foodstuffs. The increased number of banknotes in circulation (issuance of bank/state banknotes to pay for war expenses) led all countries to massively increase prices: currency, which was no longer minted, almost disappeared. From inflation came hyperinflation. The only way out was to withdraw all circulating money and replace it with new money. This was to the advantage of traders and debtors, who were able to benefit from the increased prices, and to the disadvantage of the less economically powerful social classes (e.g. workers, clerks and savers), who saw their savings lost.

Given the severe economic instability, the International Monetary Conference was held in Genoa in 1922 in order to establish a system of fixed exchange rates: with the

*gold exchange standard*³, circulating banknotes were placed as collateral, as their convertibility was no longer guaranteed by the now scarce gold reserves. By adhering to this system, countries had to make their banknotes key currencies, convertible into gold so that they could be used by other countries as reserves for their own issues. Unlike the *gold standard*, for large international transactions there was 'limited convertibility' of gold notes, as they could only be converted if their quantity exceeded a certain threshold and only at the central bank where they were issued. In 1927, five years after the Genoa Conference, the goal was achieved and there was a return to a system of fixed exchange rates.

1.2 Inter-Allied debts, war reparations and the new social question

At the end of the conflict, the Allies placed the responsibility mainly on Germany, which was ordered to pay reparations worth more than 30 billion dollars. The Europeans who had taken on the payment of the inter-allied debts that had arisen during the conflict (the United States and Great Britain as creditors as opposed to the debtor Allies) pinned their hopes on this huge sum to be paid by Germany. These huge reparations imposed on Germany were the subject of conflicting opinions: on the one hand, there was the conviction of the Americans, under the leadership of President Wilson, that this debt should be paid as it was part of normal business relations; on the other hand, the economist Keynes, of the British delegation, contrasting with his own government, believed that this debt would never be paid as it was too large and proposed that it be cancelled. However, since no definite amount of money had been

³ *Ibidem*, p. 179.

decided, as Keynes pointed out in *The Economic Consequences of Peace*, both the Allies and Germany were adversely affected by the fact that the precise amount to be paid/received was unknown⁴.

What complicated the dynamics and made Germany's inability to pay that sum was the logic with which the negotiations were arrived at. The topics of discussion were territories, sovereignty, the humiliation of Germany, to arrive at a '*Carthaginian peace*', to quote Keynes' words. There was a sentiment shared by many: that of making Germany pay the costs of the conflict as far as its capabilities would allow. This was the opinion of both French Prime Minister Clemenceau and British Prime Minister Lloyd George. Sir Eric Geddes, one of the ministers in the latter's government, went so far as to say that they would squeeze Germany as one squeezes a lemon, "until the seeds crack"⁵.

Keynes's criticism was directed not only at the terms of the treaty, but also at the political attitude used mainly by France and England, which was aimed at economic annihilation and humiliation of the Germans. Doubts about the amount of the sum to be paid by the Germans created misunderstandings and uncertainties for both Germany and the Allies. The inclusion in this amount of every building destroyed or every damage caused was unthinkable. Such a figure, which would certainly have been lower than the disproportionate figure envisaged by the French and British governments, was to be agreed by the victors on the basis of Germany's actual ability to pay. Instead, as Keynes pointed out, such an analysis of Germany's real ability to pay was not taken into account during work⁶. The British economist predicted a debt of more than £6500

⁴ Keynes, J. M., (2007), *Le conseguenze economiche della pace*, 6th ed., Adelphi, Milan.

⁵ *Ibidem*, p. 121.

⁶ *Ibidem*, p. 125.

million⁷, for Germany, in addition to having to pay £1,000 million in advance by 1 May 1921. Consequently, being unable to pay this amount, Germany would have to provide for the perpetual surrender to the victors of all its surplus production⁸.

Finally, the Great War indirectly caused a worsening of the social question. Reduced wages generated general discontent and for many men who had fought in the conflict, risking their lives on a daily basis, reintegration into the world of work was quite difficult. During the war, agrarian reforms had been promised to begin at the end of the conflict. These promises were not kept. Thus the middle class, workers and citizens in general gave rise to some tumultuous movements. These riots were contained with difficulty in countries with a strong democratic and parliamentary culture, such as France or Great Britain. On the contrary, such riots were a cause for concern in countries such as Italy or Germany, where the establishment of a democratic system with the Weimar Republic had to reckon with the frustration caused by the imposition of the huge costs of the conflict, which led to the erosion of the foundations of democracy and a serious inflationary crisis. These dynamics paved the way for an authoritarian involution of the extreme right that became more concrete about 10 years later, when Adolf Hitler and Nazism came to power: the basis of his propaganda was criticism of those who accepted the victors' imposition of peace terms⁹.

⁷ *Ibidem*, p. 135.

⁸ *Ibidem*, p. 138.

⁹ Cardini, F., Valzania, S., (2018), *La pace mancata: la Conferenza di Parigi e le sue conseguenze*, Mondadori, Milan.

1.3 Structural changes in the international economy and the Paris Peace Conference

The role of the state, understood as authority, during the First World War was of paramount importance. The state was in fact the guarantor of supplies and distribution of raw materials and provisions. And, based on Keynes' reasoning, a return to pre-war liberalism would have been necessary at the end of the war, or so French Prime Minister Clemenceau intended¹⁰.

This return to liberalism was very difficult. After the conflict, a delicate period began that culminated in the Great Depression of the 1930s and led the state to shift from liberalism to state interventionism in the economy, increasing its interference. The hegemony of the major European powers that had marked the period before the First World War was not easily regained by them at the end of the conflict. Europeans saw a great decrease in their share of world goods and international trade. The volume of US goods exports increased unabated and the value of the dollar was always greater than that of the pound.

The European continent underwent a geopolitical split, particularly after the peace treaties, which dismembered the old empires. In particular, the German empire became much smaller due to the lost territories, while the Austro-Hungarian empire disintegrated, becoming the subject of a division into three autonomous states (Austria, Czechoslovakia and Hungary). The latter, as the population was often unable to acquire domestically produced goods, were economically unbalanced. Russia, on the other hand, saw a profound change in its approach to economics after the Bolshevik

¹⁰ Keynes, J. M., (2007), *Le conseguenze economiche della pace*, 6th ed., Adelphi, Milan, p. 43.

revolution of 1917, which led to a closing in on itself and a sharp decline in relations with the rest of the European continent.

The perplexity about the conduct of the peace treaties and the actual efficiency/effectiveness of the Paris Conference can be explained by the complexity and vastness of the problems to be solved and the objectives to be achieved. These included: the reshaping of the European continent after the collapse of the 4 powers, the redrawing of borders, the establishment of reparations to be paid by all defeated countries, the revival of the international economy in a short period of time, the creation of new rules, etc. These ambitious goals were mainly aimed at satisfying the conflicting interests of the victors, who had suffered a weakening in all respects as a result of the war.

Many hoped that this conference would change international relations and bring an end to wars, and just as many were disappointed. However, today we can easily say that it was an idea that was difficult to realize because, in particular, the sums demanded of Germany for reparations were too great. If the Weimar Republic had shown the intention to cooperate more, the consequences for it would probably have been better.

As the crisis of the 1930s highlighted, the greatest failure of the Paris Conference was that it failed to coordinate states economically on an international level and prevent new wars and nationalism. What happened after the Paris Conference, the effects of which, however, are not very visible today, is a legacy we can treasure: the signing of a treaty or conference did not bring about final peace, but for decades the countries that had taken part in the conflict were adversely affected and armed clashes did not stop. Finally, if what is enshrined in a piece of paper is violated due to certain behaviour, that piece of paper has no real value.

CHAPTER 2

Keynes and the Versailles treaties: the risk of a ‘Carthaginian Peace’

2.1 The humiliating conditions of the Treaty of Versailles

By signing the Treaty of Versailles (28 June 1919), Germany accepted the loss of 1/7 of its territory and 1/10 of its population. It also suffered the subtraction of both the centres where coal and iron were produced and processed and 1/7 of its agricultural production. It also accepted the loss of all German colonies and foreign possessions of the Reich. It also had to do without more than half of its merchant fleet and had to accept being economically discriminated against for a long time. There was a demilitarisation of the Rhineland, which was divided into three zones, which were occupied by the Allies for many years (5 to 15). The Saarland was put under the control of the League of Nations mandate. There was a transfer of the coal mines to France. There was a conversion of the port city Danzig and the surrounding area into a free city of Poland with special laws. Austria, whose National Assembly had agreed by vote to connect the country to the German Empire, was granted independence.

US President Wilson, before signing the treaty, revealed in good faith that he would probably never have signed it if he had been a German. Since the conditions imposed

on Germany were so harsh and humiliating, it was very unlikely that they would be kept, as US Foreign Secretary Lansing pointed out. Historian and diplomat George F. Kennan went so far as to criticise the Treaty of Versailles on the grounds that it would open the way to future conflicts, to future tragedies, as if the devil's hand had written it. Even the new Italian Prime Minister, Francesco Saverio Nitti - who succeeded Orlando before the Peace Treaty was signed - agreed with this judgement. By accepting this Treaty, as stipulated in Article 231, Germany would compulsorily take responsibility for starting the war. The Old Empires were dismantled¹¹.

On 28 June 1919, 44 states gathered at the Gallery of Mirrors at the Palace of Versailles to sign the main treaty linked to the Paris Peace Conference, preparatory to the end of the First World War. As John Maynard Keynes stated, who made a prediction of the ominous consequences that would manifest themselves, should the end be the weakening of Central Europe, revenge would soon come. Describing them in corrosive detail, Keynes even went so far as to attribute the premises of the failure of the Treaty of Versailles to the physical characteristics of the Big Four who signed it¹².

First of all, French Prime Minister George Clemenceau was given the nickname 'the tiger', as he was not only the master of the case, but was completely inflexible and resentful towards the Germans. Very attached to France, Clemenceau was there both when it had been defeated at Sedan in 1870, the year marking the end of the Second Empire, and when the Germans had invaded it in 1914. He therefore craved revenge, would not compromise and wanted to make sure it would never happen again. He

¹¹ Dockrill, M., (1980), "The Foreign Office and the Proposed Institute of International Affairs 1919", *International affairs (London)*, vol. 56, no. 4, pp. 665-672.

¹² Martinelli, A., (2010), "Negli scritti curati da La Malfa due efficacissimi ritratti di Wilson e Clemenceau", *Corriere della Sera*, 6 dec., presenting J.M. Keynes, *Sono un liberale? E altri scritti*, a cura di G. La Malfa, 2nd ed., Adelphi, Turin.

argued vehemently that the only possible peace was to bring Germany to its knees from all perspectives. He wanted a 'Carthaginian peace', even going to great lengths to find the formal tricks that would allow US President Wilson not to contradict his own 14 Points. The real winner of the Peace Conference was therefore the French Prime Minister.

Going by the description of David Lloyd George, British Prime Minister, he was seen as capable of being extraordinarily empathetic. Gifted with realism and inclined to compromise, he was aware that, with the fall of the Austro-Hungarian Empire, the emerging Soviet Union would benefit from the fall of a major barrier that contained Russian penetration into Europe; and that the imposition of overly harsh conditions on Germany would lead to a new war in the future. But its people craved revenge and, wanting to satisfy the interests of their voters, could do nothing but make Germany pay the costs of the conflict.

Finally, the fragility displayed by Vittorio Orlando (he cried in front of everyone), the Italian Prime Minister - because according to him the Allies were humiliating Italy - was the object of derision by Clemenceau. As stipulated in the agreements secretly made four years earlier in the London Pact, Orlando's interest was limited to territorial compensation. In addition to the obvious conflict with the principle of nationality upheld by President Wilson, he also went against Foreign Minister Sidney Sonnino, who in addition to the annexation of Fiume, which according to Orlando was sufficient, also wanted Dalmatia to be annexed. The result for the Italian President was the failure to obtain both territories and Wilson was able to humiliate him by deliberately

bypassing him in a speech directly addressed to the Italian people, an action that caused the temporary withdrawal of the Italian delegation from Paris¹³.

2.2 A Carthaginian peace?

The Treaty of Versailles, produced by the Paris Peace Conference, responded to the delicate objective of restoring an international order and stability and peace to the European continent. In modern times, the claim that this treaty was the product of past grievances and negotiations conducted with insufficient attention to the extraordinary circumstance at hand is valid.

The Treaty of Versailles failed to achieve the key objectives of those who had signed it. The negotiations and subsequent attempts to implement the treaty caused an obvious deterioration in relations between the Allies and between them and the defeated enemies. Thus there was also a consequent deterioration in the economic conditions of Germany and the European continent. These dynamics were predicted by Keynes when the Treaty was signed, who blamed the negotiators' mistakes. The cause of the insufficient conditions for applying rational choice patterns in the economic, political and international relations framework at that time is rooted in the catastrophic *lose-lose* nature of the Treaty of Versailles. This highlights the need for action by the peace negotiators to place greater value on the improvement of agreements and their long-term effects on international relations.¹⁴.

¹³ Orlando, V.E., (2002), *Discorsi parlamentari*, il Mulino, Bologna.

¹⁴ Bottom, W., (2003), "Keynes' Attack on the Versailles Treaty: An Early Investigation of the Consequences of Bounded Rationality, Framing, and Cognitive Illusions", *International negotiation (Hague, Netherlands)*, vol. 8, no. 2, pp. 367-402.

Keynes, in his *The Economic Consequences of Peace*¹⁵, makes use of the term Carthaginian Peace to refer to the humiliation and harsh conditions imposed on Germany, a term that has its roots in the overwhelmingly punitive policy adopted by the Romans mainly in the Second and Third Punic Wars (218-202 BC and 149-146 BC), when Carthage was razed to the ground and its population enslaved. The famous phrase ‘*Carthago delenda est!*’ was uttered by Marzio Porcius Cato on that very occasion.

Keynes’ participation in the Paris conference was in the capacity of delegate of the British Chancellor of the Exchequer, but he resigned from that post because he did not agree with the conditions imposed on Germany, which were unacceptable to him. In his words to Prime Minister Lloyd George, his conviction that the battle was lost emerges. And he predicted that the spectacle Wilson and Clemenceau would witness would be the devastation of Europe.

Keynes’ criticism was directed at the Treaty of Versailles and its consequences. Like his, equally lucid and prophetic was the judgement of Francesco Saverio Nitti, Italy’s Prime Minister at the time, who had a vision of a ‘*somewhat Balkanised*’ Europe, that is, torn and divided. As reported on the 150th anniversary of Nitti’s birth in *Corriere della Sera*, the Treaty of Versailles would have led to other, even more frightening conflicts¹⁶. The Italian economist and politician Carlo Vulpio, who was convinced that national sentiment, transformed into nationalism, was aimed at the depression of other peoples, devoted three volumes to the European crisis. The first of these, *Europe*

¹⁵ Keynes, J. M., (2007), *Le conseguenze economiche della pace*, 6th ed., Adelphi, Milan.

¹⁶ Vulpio, C., (2018), “Versailles, pace gravida di conseguenze. La profezia lungimirante di Nitti”, *Corriere della Sera*, 5 jul., p. 3.

without Peace (1921), highlighted his pessimistic view, shared by Keynes, on the future of the European continent.

The focus of Keynes' political campaign was on his disagreement with the Allies' imposition of reparation clauses on Germany at Versailles. Moreover, the circumstances of these events were the devastation, due to the conflict, of territories across the continent, with all the negative economic repercussions that resulted, starting with the *gold-exchange standard*. The British economist's communication saw his political passion lead the way in economic analysis: having actively participated in the reparations, Keynes also took on the skills of a skilled political actor. His loyalty and attachment to English society were highlighted by his determination. And, taking credit for establishing important interpersonal relationships, he was able to enter German political circles¹⁷.

2.3 Keynes' economic proposal to the peace treaties

Born in Cambridge on 5 June 1883, Lord John Maynard Keynes graduated from King's College Medical School¹⁸. Seven years after being admitted to the British Civil Service, he left that path to devote himself to teaching economics at Cambridge University. When the Great War broke out in 1914, Keynes was asked to work with the government, serving as a civil servant in the Treasury. He was able to negotiate with the Allies and had a deep understanding of the motives and domestic conditions of

¹⁷ Schuker, S.A., (2014), "J.M. Keynes and the Personal Politics of Reparations: Part 1", *Diplomacy and statecraft*, vol. 25, no. 3, pp. 453-471.

¹⁸ Keynes, J. M., (2019), *Teoria generale dell'occupazione, dell'interesse e della moneta e altri scritti*, tr. La Malfa G., Mondadori, Milan.

individual countries thanks to his position as head of a strategy department, which was set up to solve England's international financial problems.

As a principal Treasury official, Keynes' presence was requested at the Paris Conference in January 1919. There, the English economist became convinced about the Allies' disproportionate punitive attitude towards the defeated enemy. Rather, he urged that it was considered more important to reorganize European geopolitics in a balanced manner and, consequently, to demand fair and not disproportionate payment from the defeated. To this end, he designed a grand scheme to restructure Europe economically and politically. Nevertheless, the Keynesian perspective was overshadowed by the other participants, mainly the French and the British, whose aim was to make the Germans pay up to the limit. Given England's high indebtedness to the United States, British Prime Minister Lloyd George was aware of the vital importance of reparations from the Germans to settle these debts.

As Keynes of the Bloomsbury group pointed out, the way the conflict had ended presaged further future turmoil, as everyone was in debt to everyone. He used the metaphor of a general bonfire to be managed benevolently and routinely, with no unjust behaviour towards anyone, otherwise *“the bonfire when it finally takes place will become a fire that can destroy many other things”*¹⁹. As proclaimed by US President Wilson, a solution had to be found that was just and lasting, and that reflected the idea of a peace without victors. However, during the Paris peace talks, the French desire to impose heavy reparations on the Germans, so that they could no longer rise up and become a danger again, prevailed, to impose the aforementioned *‘Carthaginian*

¹⁹ *Ibidem*, p. 22.

peace'²⁰. Keynes was convinced that Germany would never be able to pay such reparations, that the resulting political effects would be devastating, that revenge would not be long in coming.

Lord Maynard Keynes was not at all happy with the conditions contained in the Peace Treaty, the text of which was ready in May 1919. In a letter whose addressee was the painter Duncan Grant, whom he met for the first time in Paris²¹, he expressed his conviction that further conflicts would arise as a result of this treaty, even going so far as to describe the peace as outrageous. In contrast to the other representatives in Paris, according to Keynes the Germans would never have signed that piece of paper. And, if they had, they would have chosen to act in the worst way, as general confusion would have ensued, since Germany would never have been able to fulfil all the stipulations. Regarding American President Woodrow Wilson, the definition given to him by Keynes was that of the greatest impostor on earth²². His faithful adherence to his principles had negative consequences: once a conclusion was reached, even if it was not right, Wilson would never take it back.

Keynes also saw to the elaboration of an alternative economic proposal to the forecasts in the agreements, which was based on the following pillars: softening the reparations demanded of the Germans; the elimination of inter-allied debt; the creation of conditions for free trade on the European continent. If commitment to these goals was not shown, “*vengeance would not be long in coming*”, a civil war would soon ensue “*which will destroy, whoever the victor, civilization and progress in our generation*”²³.

²⁰ *Ibidem*, p. 23.

²¹ *Ibidem*, p. 125.

²² *Ibidem*, p. 144.

²³ *Ibidem*, p. 158.

Keynes' famous essay *The Economic Consequences of Peace*²⁴ sees him sharply criticising the peace that he called 'Carthaginian', as the obdurate and inflexible French government decided to impose it on Germany, setting the stage for the Second World War. As acknowledged by the Austrian economist Joseph Schumpeter, with his book Keynes made a bold attack on the Paris peace talks; in particular for his elaborate analysis of the economic-financial clauses in the Treaty of Versailles, which were considered futile, unjust and unworkable. In an article by Schumpeter²⁵, he describes *The Economic Consequences of Peace* as a masterpiece that is never trivial, ruthlessly logical but never cold, "*genuinely human but never sentimental; it describes all the facts without vain regrets but also without hope*".

As the accounts of the English writer Quentin Bell reveal, in 1919 Lord Keynes confided in him his intention to travel to Versailles in order to inform the Allies that Germany would not be able to pay because they did not have the required sum. Keynes' book aims to point out that the Carthaginian peace was both unjust and impossible. He knew that the terms of the treaty were impossible for practical reasons, as the value of the reparations demanded corresponded to four times Germany's pre-war national income.

According to Bell, the Peace of Versailles was intended to be Carthaginian not so much because of the permanent disabling of Germany, but because of the imposition on the Carthaginians of a peace that, although it would not lead to their ultimate

²⁴ Keynes, J. M., (2007), *Le conseguenze economiche della pace*, 6th ed., Adelphi, Milan.

²⁵ Dimand, R.W., (2019), "One Hundred Years Ago: John Maynard Keynes's *The Economic Consequences of the Peace*", *History of economics review*, vol. 73, no. 1, pp. 1-13.

destruction, would nevertheless mean a heavy humiliation²⁶. It emerged from the Paris Conference that, according to the British, the Reparations Commission would have to make a calculation of the sum of the Germans' future payments for the next thirty years. The French went further, going so far as to argue that if the total cost of the conflict exceeded the value of the sum provided, Germany would have to continue to pay until the full cost of the war was covered²⁷.

According to the 1933 words of Harold Nicolson, a British politician, especially at the beginning of the conference, there was no precise definition of the conditions that would result. As Nicolson stated, there had been an inclusion in the treaty of many paragraphs (mainly those on economic matters) as “*‘declarations in principle so as to leave room for flexibility in Germany’s concessions. [...] However, no future negotiations would take place with the defeated enemy’*”.

According to Nicolson, Clemenceau “was the most distinguished member of the Council of Four. He felt the same about France that Pericles felt about Athens: it was the only thing that really mattered. He had one illusion - France - and one disillusionment - the whole of mankind, including the French and his colleagues”²⁸. The British writer Douglas Jerrold was of the opinion that Keynes’s views on the Peace Treaty were supported by many members of the British Treasury but that, unlike

²⁶ Bell, Q., (1968), *Bloomsbury*, George Weidenfeld & Nicolson, London. Cited in Dimand R.W. (2019), “One hundred years ago: John Maynard Keynes’s *The economic consequences of the peace*”, *History of Economics Review*, vol. 73, n. 1, pp. 1-13.

²⁷ Dimand, R.W., 2019, “One Hundred Years Ago: John Maynard Keynes’s *The Economic Consequences of the Peace*”, *History of Economics Review*, vol. 73, no. 1, pp. 1-13.

²⁸ Nicolson, H., (1933), *Peacemaking 1919*, Constable, London. Cited in Dimand R.W., (2019), “One hundred years ago: John Maynard Keynes’s *The economic consequences of the peace*”, *History of Economics Review*, vol. 73, n. 1, pp. 1-13.

Keynes, they were not as courageous to make them public. Quoting Douglas: “after all Keynes did nothing but tell the truth”²⁹.

2.4 The debate on the “economic consequences of peace”

Turning to his boss, Sir John Bradbury, with a view to the future and putting the interests of the mother country first, Keynes wrote when he retired (July 1919): “*Sooner or later the time will come when Germany will ask us for a substantial loan to finance its supplies, and when that happens we will have many valid reasons for granting it.*” Continuing his reasoning, he pointed out how, according to the peace negotiations, part of the German merchant navy would be ceded immediately. He concluded as follows: “*If at the end of the first accounting period, i.e. on 1 January 1921, the sums we are entitled to receive from the Repairs Commission are less than the value of the ships, then we should pay the difference. It must therefore be said that the ships we receive are not compensation for our losses; but instead we purchase them, paying the proceeds to the Repairs Commission*”³⁰.

A few days later, when he made the arrangements with the Macmillan publishing house to publish his book on the economic consequences of peace³¹, the English economist, addressing the president of the Supreme Economic Council in office at the time, Lord Robert Cecil, wrote a letter in which he highlighted the problems with grain supplies in the world and his thoughts on the Treaty of Versailles. Lord Cecil, replying

²⁹ Jerrold, D., (1937), *Georgian Adventure. The Autobiography of Douglas Jerrold*, The “Right” Book Club, London. Cited in Dimand R.W. (2019), “One hundred years ago: John Maynard Keynes’s *The economic consequences of the peace*”, *History of Economics Review*, vol. 73, n. 1, pp. 1-13.

³⁰ Keynes, J.M., (1978), *Interpreting the Treaty*, Cambridge University Press for the Royal Economic Society, Cambridge.

³¹ Keynes, J.M., (1919), *The Economic Consequences of the Peace*, MacMillan, London.

that his thoughts were to be considered carefully, suggested him to write an article on the subject, as the Peace Treaty was somewhat ambiguous and inconsistent.

As some statements made to Keynes by a former member of the Reparations Commission, a certain Andrew MacFadyean, suggest, it is not clear from the text of the treaty whether the payments in Article 235 for Germany consisted of the value of supplies, or whether these payments consisted of the value of ships, coal, etc., or whether they were the value of the goods. He concluded: “*Would you be so kind as to tell me what you think were the intentions of those who drafted the Treaty?*”. This shows how the treaty, even at that time, was a cause of ambiguity.

The former British Treasury official had already foreseen in 1919 - when, as Kirshner³² states, he published his book with the British Macmillan house - the confusion that would ensue. We can give Keynes credit on the one hand for opposing the Treaty, in his first critical remarks; on the other hand, for highlighting, in his second remarks, the economic problems of the European continent. Keynesian criticism was preparatory to an awareness of the precariousness of the European order. According to the British economist, the serious consequences of the conflict were to be a lesson for Europeans, which too many failed to grasp, only celebrating a new era in the continent’s economy.

As we read in his words, the war years eliminated the unstable elements of the economy, which were already present when the conflict broke out, without adequate replacement by more stable elements. At that time, the primary objective was the reconstruction of the economic order in general by resorting to heavy punishment. We

³² Kirshner, J., (2019), “The man who predicted Nazi Germany”, *The New York Times*, 7 dec.

read: “*This was the critical failure, not only of the Peace of Versailles, but of the entire political and economic context in which it was written*”³³.

Keynes realised that the survival of the European continent was threatened by the shocks that the war had brought to the economic system. There were no directives in the Treaty of Versailles aimed at the economic reorganisation of the continent, the establishment of good neighbourly relations with the defeated Central Empires, the stabilisation of the new European states or the restoration of the economic arrangements of Italy and France, which were in disarray. “*To reduce the German state essentially into slavery would have meant the decay of the entire civilisation of European life*”³⁴. Following the observations of historian Eric Weitz³⁵, faced with the conditions imposed on Germany, the Germans were incredulous and stunned. Since there were no longer any foreign troops on German territory, they did not expect to have to submit to an unconditional surrender, believing instead that they would be able to negotiate the terms of peace. But Germany was deprived of its colonies, its army was broken up, its ships were sunk and it had to suffer the imposed reparations passively.

Lord Keynes, as he states in his book, was quite in agreement with the justice of the Treaty. Rather, his criticism was directed at the consequences that would follow and the fact that those who drafted it were described by him as short-sighted. His proposal for less severe reparations has been the focus of historians, but at that time Keynes was still more concerned about the issue of inter-allied debts. As stated in an internal file of the British Treasury, in the British economist’s view such debts were a threat to global financial stability and a burden that did not curb international friction. “*An international*

³³ Cited in Kirshner, J. (2019), “The man who predicted Nazi Germany”, *The New York Times*, 7 dic.

³⁴ *Ibidem*.

³⁵ *Ibidem*.

financial order based on little more than a series of debts and reparations can only last forso long”³⁶. Again, in his article in *Everybody’s Monthly* magazine, repeating the same concepts stated in *The Economic Consequences of Peace*, Keynes, communicating with the American public, highlighted both Germany’s responsibility for the war and the confusion the Treaty would leave in Europe. He concluded: “*And the European interest, not revenge, must guide the negotiations. It would be a disaster for the whole world if America were to isolate itself*”³⁷.

The resulting crisis had obvious negative effects in the following decades and led to the collapse of the world economy in the Great Depression of 1929. In an essay by Charles Homer Haskins, an American historian, which appeared in *What Really Happened at Paris* (a collection of readings provided by some American delegates), as historian Anthony Lentin³⁸ states, the tone used by the Council of Four was one of mutual respect and goodwill. We quote a note published in the British newspaper *The Times* on 21 May 1921³⁹: “*the nature of the Council sessions was grossly misrepresented by J. M. Keynes, with the intention of discrediting the Conference and its work. It has been stated by the official interpreter, Captain Paul Mantoux, that Keynes never attended a regular session of the Council of Four*”.

On the same day, the English economist, evidently irritated, addressed a letter to the editor in which, referring to the personal attack by Prof. Haskins, he said: “*I find your*

³⁶ *Ibidem*.

³⁷ *Ibidem*.

³⁸ Lentin, A., (2004), “Maynard Keynes and the ‘Bamboozlement’ of Woodrow Wilson: What Really Happened at Paris? (Wilson, Lloyd George, pensions and pre-armistice agreement)”, *Diplomacy & Statecraft*, vol. 15, n. 4, pp. 725-763.

³⁹ Cited in Lentin, A. (2004), “Maynard Keynes and the ‘Bamboozlement’ of Woodrow Wilson: What Really Happened at Paris? (Wilson, Lloyd George, pensions and pre-armistice agreement)”, *Diplomacy & Statecraft*, vol. 15, n. 4, pp. 725-763.

*statement that those persons present in the President's drawing room did not represent the Council of Four and did not really perform the delicate task of setting up most of the chapters of the Treaty inaccurate and without foundation". About ten days later (2 June 1921), this note was published in the New York Evening Post, together with a commentary by Haskins criticising Keynes's inaccuracy in referring to the President's house where the Council meetings regularly took place. He went on to say: "As himself states, Keynes is not aware of the meetings that were held downstairs; and there are many who can refute his statement that these meetings were 'unattended' and 'irregular'. It would be interesting to know how many meetings he actually attended; he was certainly absent from many. [...] In this respect the best witness is Captain Mantoux, whose presence at all Council meetings Keynes ignores."*⁴⁰.

On 14 July 1921, in a letter that never received publication, Lord Keynes, addressing the editor of the *Evening Post*, stated that he could not tolerate having to respond to such low-level criticism, as it was preparatory to the discrediting of important political judgements. Nevertheless, he added: "*But, having given Prof. Haskins the opportunity to make such criticisms, I will now add this. That Prof. Haskins never had anything to do in Paris with the question of reparations. If he asks those who did take part in it for information, he will realise that he was not properly informed on the matter*"⁴¹.

When, two years later, the Norwegian economist Wilhelm Keilhau asked Keynes for precise information about the meetings he had had, the dates and his sources, the Englishman was able to give concrete evidence of how much he really knew about the events of the Big Four Council. He replied to the Norwegian in a letter, dated 31

⁴⁰ *Ibidem.*

⁴¹ *Ibidem.*

October 1923, in which he first noted his constant presence at the Big Four meetings, then reported a meeting that had particularly astonished him - that of 23 April 1919, when Clemenceau snuck out of the room. According to Keynes' words, he made use of only one source: his personal observation. Since he was dressed as a civil servant in Paris, traditionally doing an anonymous job, it was difficult for Keynes to recount his actions in the French capital. The final part of the letter reads: "*An episode of which I was proud at the time, but which in fact led to nothing, was my April 1919 plan for the economic reconstruction of Europe. I persuaded the British government to adopt my plan and there was a moment when it seemed that even America was in favour of it, although in the end it firmly rejected it. [...] Looking back I still think this plan was workable and would have saved the day*"⁴².

As is clear from the papers of the Council of Ministers, which are kept at the Public Record Office, there are at least four occasions on which Keynes took part in meetings of the Supreme War Council, later to become the Council of Four. On 8 March 1919, at the last of these meetings, Keynes, according to his essay on Melchior, *Dr. Melchior*, witnessed the humiliation of Klotz, the French finance minister, by Lloyd George, partly because of his manoeuvring for the appointment of a British admiral.

The fact that Keynes did indeed attend the Big Four meetings was also clarified in a letter, dated 1925, to Kelilhau from Paul Mantoux, interpreter to the French Prime Minister Clemenceau, in which he stated on the one hand that he had no doubts about the English economist's truthful description, and on the other hand that Keynes probably created confusion among readers about his attendance at some extended

⁴² *Ibidem*.

meetings and at the usual council meetings, whose presence was much rarer. He then concluded: *“The mention made of his presence at the Council of Four is valid even if he did not attend the meetings held downstairs in the President’s house, as the minutes of the meetings upstairs in the great drawing-room are part of the same record”*. The Norwegian economist replied: *“Keynes never claimed to have attended the intimate meetings in President Wilson’s study downstairs”*. And later to Keynes: *“As you see the whole matter is now cleared up. The only thing that remains is your use of the word ‘regular’. I must say that I do not understand why your opponents have raised this fuss about a relatively unimportant distinction”*⁴³.

⁴³ *Ibidem.*

CHAPTER THREE

Luigi Einaudi: his liberal vision, the elimination of the dogma of sovereignty

and economic-social issues in post-war Italy

3.1 Luigi Einaudi and the Turin School of Economics

The Turin Laboratory of Political Economy, established in the 1890s by Salvatore Cognetti de Martiis, became the first centre where debates also took place with scholars of law and political science. It was a preparatory institution for the promotion of the study of economic phenomena and related issues, which enjoyed wide recognition in Turin and then internationally. It came to become a centre of investigation and a point of reference for research. The team of many important scholars who were part of it included Luigi Einaudi who, starting in the 20th century and with the journal *La Riforma Sociale* (founded in 1894 and with Einaudi as its editor from 1908 to 1935), became a true leader of the so-called Turin School⁴⁴.

The Einaudian view in defence of the liberal order of society reflects a neo-classical conception of economics. At the heart of Einaudi's theory is the argument that in order for the competitive mechanism to be efficient, it must be regulated by a set of rules. There is a risk of competition and inequality being destroyed if the market is left to itself. It is the task of the state to create such a framework of rules that allow competition

⁴⁴ Marchionatti, R., Cassata, F., Becchio, G. & Mornati, F., (2013), "When Italian economics "Was Second to None". Luigi Einaudi and the Turin School of Economics", *The European Journal of the History of Economic Thought*, vol. 20, no. 5, pp. 776-779.

to take place efficiently, counteracting monopolies (antitrust laws) and forms of protectionism that favour only a few⁴⁵.

International economic development and the process of convergence of economies were partly the result of the international liberal economic order, which was based on the free market and the gold standard. The regulatory function of gold prevented arbitrary interventions by countries and ensured global economic stability in the 'happy century', as Einaudi called that period (1814-1914). Einaudi and his entourage were supporters of the open market system and the gold standard for an efficient and rational organisation of the economic system. To overcome the crisis resulting from the First World War, it was necessary to reconstitute the gold standard that existed before the war and a market free of tariffs and protection. It was essential to return to a sound currency.

As Einaudi argued after the inflation of 1914-1920, monetary policy had to focus on price stability, so that the economy would not be disturbed by changes in the value of money. Einaudi's analysis emphasises the negative consequences of inflation on savings, a function of confidence in money, in order to leverage the necessary pursuit of monetary stability in monetary policy. The Einaudian pillars on which stable growth is based are monetary stability and free trade. Without these conditions, there is a stiffening/blockage of the economic system⁴⁶.

At first, Einaudi hoped for a common path towards the political unity of Europe, which was seen as a project in the making. According to his liberal vision at the international level, freedom is not so much about the choice to act according to the will

⁴⁵ *Ibidem*, p. 788.

⁴⁶ *Ibidem*, p. 789-792.

of national sovereigns, but rather about international choices made on the basis of a set of rules, the majority principle and the consequent limitation of state sovereignty. The heart of Einaudi's argument is that, in order to pursue collective actions aimed at a public good such as international peace, it is necessary to eliminate the absolute and exclusive sovereignty of each state. Einaudi championed the idea of a supranational system of shared sovereignty based on the example of the United States of America⁴⁷.

However, the Piedmontese economist seemed to lack awareness of the cons of a liberal international system designed on economic institutions, without discussing the political sovereignty of individual states. In particular, just before the First World War, Einaudi was very optimistic that the ideal of peace was about to be achieved, given the greater debt and credit ratios between countries. It was only with the outbreak of war that this optimism waned. He realised that it was crucial to find a way towards a European political federation and supranational cooperation. To achieve a federation and a viable political union it was important to create a federal financial system and a unified customs system.

According to Einaudi, the economic factor became central after the war: European governments were to set themselves the primary goal of achieving total market unification and the elimination of all tariffs. A world was envisaged in which, in addition to national governments committed to solving national problems, supranational and global governments could coexist. This was the architecture that reflected Einaudi's idea of peace. He recognised, however, that nationalist sentiments

⁴⁷ Masini, F., (2012), "Luigi Einaudi and the Making of the Neoliberal Project", *History of economic thought and policy*, vol. 19, no. 1, pp. 40-41.

were also important. If not recognised, such sentiments could cause political uncertainty in international relations and lead to military conflicts⁴⁸.

Looking at Einaudi's intellectual development, his ideas undergo some variations over time. Initially, the economist embraced federalist political thought and the idea that it was the best institutional set-up to deal with international conflicts, as well as the idea that it was the only solution to overcome national sovereignties with a view to providing global public goods such as peace and a globally efficient market. Thus, reflecting what was the general lack of awareness that would lead to World War I, Einaudi naively showed much optimism towards the potential of economic forces to overcome conflicts of a politico-military nature. After the outbreak of war, he realised that economics would not be able to overcome such conflicts, so there is a return to the central role of global political institutions to solve the problem of absolute and exclusive national sovereignty⁴⁹.

3.2 The road to Versailles and the conditions imposed to the Germans

According to Einaudi, the Treaty of Versailles constituted a formal guarantee of peace. However, it was necessary to review the peace conditions it contained. This was the work of Clemenceau alone, the most eminent figure in the Council of Four. As the Frenchman only had his own country at heart, a decrease in Germany's territory and economic power was necessary for France to flourish again. Therefore Clemenceau did not care how the aim of Wilson's 14 Points could be pursued, but believed that the only possibility was a Carthaginian peace.

⁴⁸ *Ibidem*, pp. 41-44.

⁴⁹ *Ibidem*, p. 54.

With regard to the American president, there was a belief that his ideas would have little chance of triumphing before the likes of Clemenceau or the insensitive British Prime Minister Lloyd George. In particular, the latter was able to perceive what was in the minds of others and knew what arguments to use to address the weaknesses and interests of the interlocutor who would speak. In contrast, Wilson had a mind that was slow in reasoning and unable to adapt. He was not able to enter into the heart of debates, grasping situations on the fly, and to formulate suitable replies to change the situation. In Einaudi's words, Wilson "*was therefore destined to be beaten by Lloyd George's simple readiness, intuition and agility. No man came into the council a more perfect and predestined victim than the Prime Minister's superlative skill*".⁵⁰.

It was thought that, during the work of the Paris Conference, Wilson had planned, aided by numerous advisers, how to implement the League of Nations and, by means of his Fourteen Points, an effective peace treaty. However, when the President was called upon to put his formulations into practice, it was evident how confusing and incomplete his ideas were. No blueprint, no constructive plan emerged that could be applied to Europe. Wilson was not sufficiently informed about the conditions in which Europe was living at the time. Another defect was that he had decided to gather around him a group of businessmen, experts in economics, but ignorant of public affairs and, in particular, of Europe. Thus, as time progressed, Wilson opted for an ever greater closure within himself, finding himself alone before men of far greater cunning. His slow mind and inability to propose alternative solutions weighed heavily⁵¹.

⁵⁰ Einaudi, L., Panizza, C. & Salvadori, M.L., (2021), *Scritti politici e sull'Europa: V. 3.1*, (1894-1925), Fondazione Luigi Einaudi, Turin, pp. 458-459.

⁵¹ *Ibidem*, p. 460.

As Einaudi reports, the problem to be solved was not political or territorial, but financial and economic. It was crucial to understand exactly what indemnity Germany had promised to pay. The Treaty of Versailles had not specified this figure, so it could be raised to 200-250 billion Italian lire or more, should the Germans be willing to pay more. The Italian people were, among those who had won the conflict, the most ready to understand that Germany would not be able to pay, except for a small part, the indemnity promised⁵².

As for the mode of payment, a first was by means of immediately transferable wealth (gold, ships and foreign securities). A second modality was the wealth existing in the territory ceded or surrendered under the armistice. A third modality was to pay annuities distributed over a given period of time not in currency, but in goods, i.e. exporting without receiving anything in return.

In summary, looking at the three payment modalities, under the most advantageous conditions, it would have been possible to make Germany pay an indemnity of a maximum of 50 billion lire-gold over 30 years. Looking at the possible figure that could have been obtained from Germany, quoting the words of the Piedmontese economist: *“That figure does not come to more than a few billion lire for Italy. With the indemnity actually paid by the enemy, Italy will not be able to repay its war debts to the Allies”*.⁵³.

According to the 1920 estimates of inter-allied debts, the United States was the only country that had granted loans without receiving anything in return, and its credit was around 50 billion lira. England had a net credit of less than 22 billion lira. By contrast, the following countries owed 17.575 million lire: France 17.575 million lire; Italy

⁵² Einaudi, L., (1920), “Quale indennità potrà pagare la Germania?”, *Il Corriere della Sera*, 18 feb., p. 1.

⁵³ *Ibidem*.

20.675 million; Russia 19.150 million; the other allies 12.300 million. Like Keynes, Einaudi was also convinced that these credit/debt ratios had to be cancelled for the sake of world peace.⁵⁴.

Otherwise, the Allies would have had to pay each other compensation instead of receiving it from the enemy. If, for example, Italy had had to pay the 20 million lire, the payments owed by Germany would have had to be far greater. Again, quoting Keynes' words, the Piemontese economist added: *"To force the Allies to pay would be to impose a crushing burden on them. They will make continual attempts to evade or escape payment and these attempts will be a permanent source of friction and international ill-feeling for many years to come"*.⁵⁵.

A reconstruction fund was needed for continental Europe to facilitate a return to a normal economic situation. According to Einaudi, the period in 1920 when Europeans could count on tens of billions in loans from abroad was behind and the United States would no longer be the provider of funds to Europe. Einaudi wrote: *"The trust of individual American savers must be gained little by little. [...] We have to get used to small figures again; and get rid of the fantasies of billions in credit supplies"*⁵⁶.

3.3 The League of Nations and the dogma of absolute and perfect sovereignty

In his book *'War and European Unity'*, Luigi Einaudi sets out his idea of a League of Nations, the birth of which would serve to end wars in the name of justice and concord. The comparison between the states of Europe and the United States of America is

⁵⁴ Einaudi, L., (1920), "L'annullamento dei debiti interalleati ed un prestito internazionale", *Il Corriere della Sera*, 25 feb., p. 1.

⁵⁵ *Ibidem*.

⁵⁶ *Ibidem*.

explicit. One reads: “*Why should it not be possible to redo in Europe what was done by the 13 American colonies that rebelled against England?*”⁵⁷. According to some, such a society already existed at the time, and what was represented by the 27 countries represented at the Paris Conference.

The idea behind the creation of the League of Nations was that of an alliance, a confederation with the objective of maintaining peace between the associated states, defending them against foreign aggression and achieving more general common goals. The confederate states would not have had to relinquish their sovereignty and independence, so the confederation would not have had direct sovereignty over the citizens of the various nations, like a kind of super-state, nor would it have had the right to impose its own taxes or directly administer its citizens. Otherwise, the nations would have simply become provinces of this Society, effectively losing their independence⁵⁸.

To give strength to his assertions, the Piedmontese economist points out how the United States of America survived two constitutions (1781 and 1788). In particular, the first constitution referred to a ‘confederation’ of 13 states that did not renounce their sovereignty, freedom and independence. The second, on the other hand, did not constitute an agreement between independent states, but created a state superior to the old states. As stated in the preamble of the current constitution, the goal was a ‘*more perfect union*’ that would guarantee justice, general welfare, common defence and liberty. Thus, the constitution of the United States of America created a new state by giving it a superior role to the constituent states.

⁵⁷ Einaudi, L., (1950), *La guerra e l'unità europea*, 2.th ed., Edizioni di Comunità, Milan, p.19.

⁵⁸ *Ibidem*, p. 20.

This necessity had emerged from the 7 years (1781-1787) of unrest, anarchy and selfishness on the part of the society of the 13 American nations. According to Einaudi, “*the root of the evil lay in the sovereignty and independence of the 13 states*”⁵⁹. Since the organisation they were part of was a mere confederation, lacking its own independent sovereignty, it could not impose taxes directly on its citizens, so it had to address each of the 13 states individually, who, however, did not want to be the first to make such contributions. Hamilton, considered to be one of the founding fathers of the American constitution, stated about the failure of the first society of American nations: “*power, without the right to establish taxes, in political societies is a mere name*”.⁶⁰

Therefore, the society of European nations would have to learn from the lessons of the past to avoid falling into the same failures. The idea of a society of nations contrasts with the dogma’s conception of the absolute and perfect sovereignty of the state, independent of other states, which contains the reasons for the war. As Einaudi writes: “*Full and absolute sovereignty can only be achieved by world domination: and to this the conquering peoples whose deeds are recounted in history were driven by the iron logic of full sovereignty and independence*”⁶¹. It was necessary to destroy this dogma of perfect sovereignty in order to create a League of Nations that could fulfil the goals for which it was created, even in the light of any disguised threats that might arise in the future.

In a letter in 1918 addressed to the editor of the *Corriere della Sera* at the time, Luigi Albertini, Einaudi criticised the League of Nations, as in his opinion it was wrong from the start and would have promoted war. For President Wilson, a firm promoter of such

⁵⁹ *Ibidem*, p. 21.

⁶⁰ *Ibidem*, p. 22.

⁶¹ *Ibidem*, p. 32.

an organisation, it should have been enough to look at the reasons behind the failed attempt to create such a society by the 13 American nations. The Piedmontese economist was convinced that to avoid a future war, the way forward was not so much the society of nations as the federation⁶².

In particular, the enemy par excellence to human civilisation was considered to be the principle of the sovereign state, on which the society of nations was founded, and which would dangerously foment the rise of nationalism. The idea of a sovereign state that can make laws within its territorial limits, regardless of what happens outside them, was anachronistic and unrealistic. Einaudi points out that, thanks to advances in communication and transport (e.g. telegraphs and telephones), as states were somehow much more connected, it would have been absurd to think of a state that can freely make laws according to its will, just because it is sovereign. There were innumerable ties that binded the men of one state to the men of other states.

“Men [...] cannot live if their life is reduced to the limits of the state. Autarchy means misery; and it necessarily drives men to conquest”⁶³. The system of the sovereign state drives the people who live in it to seek outside it the means of subsistence, forcing them to conquer the living space, an idea that is a fatal consequence of the principle of the sovereign state. The larger a state becomes, the greater its industries, the greater its need for raw materials and larger markets. “The need for world domination is flesh and blood red because all sovereign states claim the same and just right to living space, to world domination [...] the myth of the sovereign state is synonymous with war”⁶⁴. Thus

⁶² *Ibidem*, p. 37.

⁶³ *Ibidem*, p. 40.

⁶⁴ *Ibidem*, p. 41.

Einaudi pointed the finger at the false myth of the sovereign state as the root cause of the 1914-1918 war.

The failure of the society of nations lay in the fact that it was a league of sovereign states, placing them side by side, thus multiplying friction between them as none wanted to adapt to the will of the others and increasing the pretexts for war. For this reason, the way out indicated by Einaudi was a federation of peoples, built on the model of the United States of America. This would put another state, with its own tasks and its own people, alongside the nation states, instead of a society of sovereign states. It was to be a confederation of states whose supreme bodies (government and parliament) were to be elected not by the individual sovereign states, but by the citizens of the confederation. The federation was to have its own army and borders within which there would be a single citizenry and trade would be free. The states would remain sovereign for all matters not expressly delegated to the federation, which should also be the only one with an army⁶⁵.

The League of Nations was born with an obvious flaw: it was a league of independent states, each of which had its own army, its own customs regime and its own sovereign representation, both with the league itself and with the other states. This is why Einaudi insisted that this league would not succeed, just as past experience has shown that in general leagues of nations, i.e. federations of sovereign states, are not suitable for preventing war, and indeed risk fomenting tensions. The US constitution is an example of this. It was only through the efforts of minds like Jefferson and Hamilton

⁶⁵ *Ibidem*, p. 42.

that it was remedied by replacing what was a federation of states with a confederation that only had an army, its own customs regime and representation.

The First World War did nothing to solve what could be considered a European problem, namely that the idea of the permanence of so many European sovereign states had become anachronistic. The more railway and maritime communications, as well as telegraph and telephone communication improved, the less the European continent was able to withstand so many different sovereignties. To maintain their economic self-sufficiency, sovereign states erected customs barriers, the only effect of which, however, was to make the peoples poorer and more ferocious, thus affecting the geopolitical balances that were being created. The First World War reflected the more general ambition of a united Europe. However, the problem arose again at the end of it, when it became clear that the society of nations was not fit to pursue this goal⁶⁶.

3.4 Social conflict in Einaudi's thought

In Italy, the post-war climate was characterised by unrest due to the propagated inflation that had broken the equilibrium on which liberal economies were based, causing tensions and social clashes in the face of the unfair redistribution that saw certain classes benefiting from the First World War. Einaudi tried to outline the positive aspects of the economic consequences of the war, including greater industrial activity, a greater propensity to save and more sophisticated production techniques. However, it was a period in which there was unrest of various kinds: riots in the markets, looting in food

⁶⁶ *Ibidem*, p. 45.

shops, threats to merchants were the order of the day, in a country whose people tried to protest against inflation⁶⁷.

Governments, which often followed one another rapidly, were indicated by the protesters as being mainly responsible for the inflationary phenomenon and as being unable to implement adequate fiscal policy strategies. Einaudi, worried by such popular demonstrations, pointed to the resumption of international trade and free trade as the solution for economic recovery. All forms of prohibitionism had to be stopped. There could only be import bans for things that were not useful, such as luxury goods; and export bans for certain domestically produced foodstuffs necessary to feed the people. It was necessary to encourage the resumption of production by reducing military transport and returning railways and ships to their natural function⁶⁸.

Einaudi knew that Italy would also have to face intense international competition: the United States of America, whose wealth had increased during the conflict; France, had become the state that produced the most iron and steel in the whole of Europe; Germany would not be slow to get back on its feet and strengthen itself. Although he considered the opening up of markets to be necessary, the Piedmontese economist was convinced that only a minority would move in that direction, while the majority would opt for closure with prohibitive tariffs, which would benefit a few large industrialists. According to Einaudi, markets had to be reopened to improve national production, but this had to be done gradually, without suddenly lowering duties⁶⁹.

⁶⁷ Dandolo, F., (2022), *Luigi Einaudi tra le due guerre. Questioni sociali e banche*, Bancaria Editrice, Rome, pp. 25-26.

⁶⁸ *Ibidem*, pp. 26-27.

⁶⁹ *Ibidem*, pp. 27-28.

In particular, it was necessary for the well-being of the economy that Italy be allowed to move freely, without constraints, bans, permits or authorisations. This was a delicate operation that saw as a first step that the army be demobilised: every soldier forced to wear the uniform beyond the necessary time constituted one more consumer and one less producer; this was purely economic reasoning, a denunciation addressed to the state of having been slow in demobilising the war forces. With this, however, Einaudi did not want to support the protests, which he considered counterproductive, and indeed believed that the responsibility for the increased prices was not solely attributable to the state⁷⁰.

The step-by-step normalisation of economic activities was hampered by the constant looting, which resulted in a climate of general confusion and uncertainty. This climate was a cause of great concern to Einaudi, who showed increasing rigidity towards strikes and criticised the positions of trade union representatives, who unacceptably avoided confrontation with the complicated post-war economic scenario, thus also harming the workers themselves. Investigating the origins of the riots, it emerges that these were tensions that had built up during the conflict, but were repressed, and therefore exploded at the end of it. The end of the war caused overexcitement in the citizens, who had hitherto been compressed and morally restrained, and unrest in all social classes, who from then on began to aspire to a higher standard of living⁷¹.

For the sake of economic stability in Italy, bargaining between the representative associations of industrialists and workers could help to reach an agreement. However, the two sides had to remain distinct: command of the factories must be in the hands of

⁷⁰ *Ibidem*, pp. 28-29.

⁷¹ *Ibidem*, pp. 30-31.

those who know how to exercise it, which is learnt by understanding how industry lives, the difficulties it faces, what battles it has had to fight and what its achievements are, and not by class struggle. It was a matter of finding a balance that had to be dynamic, that is, such that it could be challenged, an idea that reflects Einaudi's approach to the human nature's freedom of action in seeking a balance that is the result of conflicting forces⁷².

Einaudi's criticism is directed at the perpetual and unjustified state interference in trade union negotiations. Decidedly inadequate and insufficient, in his view, was the attempt to devise strategies to counter the relentless rise in inflation, including the state's over-issuance of banknotes. In the words of the economist, the cause of the soaring prices was to be found in the abundant paper money issued by the government, a measure imposed by the demands of the prolonged war and the necessary extraordinary means to meet the expenses of the conflict. With a view to rebuilding the national fiscal policy, it should have been a priority to reduce the money supply, so as to reduce circulation and allow prices to fall⁷³.

The Piedmontese economist was convinced that the causes of the malaise were economic in nature, and that the political nature that wanted to be attributed to it was a pretext to instrumentalise the protest to the detriment of the poorer classes. In the words of Einaudi: *"From many quarters people are calling for a dictator; they are waiting for an event that will brighten up the situation. [...] One waits, one invokes the messiah, the miracle. [...] The rich, who have reserves, can still take refuge in the country or*

⁷² *Ibidem*, pp. 32-33.

⁷³ *Ibidem*, pp. 37-38.

abroad. He who lives by the day cannot. That is why we call for the popular masses to come to their senses”⁷⁴.

Particular emphasis is placed on the necessary rejection of wage increase demands in certain sectors, such as the chemical and metal industries. The reason is that accepting such demands would have led to problems for workers in other sectors, such as farmers, who would not have been able to buy products cheaply from other sectors where, given the wage demands, prices would have been higher. There would have been a situation where farmers would have had to sell their products at lower prices, and would have had to buy goods from other sectors, even those not considered as necessary as agricultural products, at higher prices⁷⁵.

Following the Einaudian perspective, the coexistence of different interests left to act spontaneously would have led to contrasts if they had not been mitigated by moderation. Those who possessed the most wealth were the ones who pressed hard for higher prices. They were mainly citizens who had increased their money in the course of the conflict, accumulating large sums, and who aspired to domination over others and a life led in lust, waste and overabundance. There was a shift in the centres of consumption from middle-class areas to working-class neighbourhoods. As demand increased, prices rose higher and higher. For these reasons, Einaudi was convinced that fair and adequate savings were crucial for the new rich.

With this in mind, the economist’s criticism was mainly directed against superfluous consumption. It was necessary to save for those who earned the most, so as to reduce the amount of notes in circulation, to bring the notes back into the bank and state coffers

⁷⁴ *Ibidem*, p. 40, contained in Einaudi, L., (1919), “Le difficoltà di quest’ora”, *Il Corriere della Sera*, 15 June 1919.

⁷⁵ *Ibidem*, pp. 40-42.

and to lower prices. Saving was seen by Einaudi as crucial to contribute to a stabilisation of prices and a more sober lifestyle. Therefore, the government could not be held solely responsible for inflation, but citizens had also contributed by excessively increasing their consumption. Hence the social function of the bourgeoisie, which, by continuing to work, pays taxes and saves⁷⁶.

According to Einaudi, rather than waiting for a miracle that would never come, the solution lay in making the remaining part of the population bourgeois. It was a matter of returning to the tacit compromise, which existed before the war, between the rich classes, who devoted a large portion of their income to saving, and the working classes, who were accustomed to lower incomes. This compromise had been broken by the conflict, which saw an increase in consumption by peasants and workers and a lower propensity to save. Therefore, the role of the state was crucial, which had to propose initiatives to accustom the newly emerged social classes to greater savings, which was necessary for the common good of the country⁷⁷.

3.5 Banking in the einaudian perspective

At the end of the First World War, the increase in deposits at the banks, where large sums of money flowed in, was mainly caused by the increased amount of money in circulation. It was therefore a prosperous period for the banks: banking was perceived as very profitable and this led to the opening of numerous credit institutions (156 new banking companies from the outbreak of the conflict to 1921) and the increase in capital. Under these circumstances there was a gradual consolidation of power of the

⁷⁶ *Ibidem*, pp. 42-44.

⁷⁷ *Ibidem*, pp. 44-45.

major banks in the form of joint-stock companies, including the Banca Commerciale and the Banca Italiana di Sconto. The post-war period saw a struggle between the large industrial groups for control of some banking companies. This was an industrial capitalism based on an assault on the banks and would result in a dangerous mixture of banking and industry⁷⁸.

As Einaudi pointed out, if before the war the complaints were directed at the banks' takeover of industry, after the war there was the dangerous opposite dynamic, with the large industrial groups attempting to take control of the banks. The economist was very sceptical of attempts to take control of banks by the customers themselves. Since merchants and industrialists were not suitable to run banks, in order to avoid conflicts of interest, it was necessary to make a clear distinction between those granting credit and those who would benefit from it. Sound solutions had to be found to avoid harmful intermingling between banks and industry⁷⁹.

Remedies of a legislative nature, such as compulsory registration of bank shares to know who owned them, were not able to curb the various conflicts of interest. Therefore, according to Einaudi, the responsibility of individual citizens was central. Scepticism was also directed at the effectiveness of the state's role as overseer to prevent banking disorders. At most, specific regulations concerning the disclosure of accounts could prevent increased speculation. Faced with the controversy surrounding the control of banks, the then Treasury Minister Francesco Saverio Nitti proposed the creation of a cartel among Italian bankers. This led to the definition of an agreement between four major Italian banks, which remained independent for certain activities

⁷⁸ *Ibidem*, pp. 49-50.

⁷⁹ *Ibidem*, pp. 50-52.

concerning core banking operations. It was hoped that this agreement could be extended to other smaller banks and banking companies⁸⁰.

Such an association, according to the Piedmontese economist, would have contributed to the exchange of information in banking. Nevertheless, he emphasised that competition should not be eliminated, otherwise all decisions, such as those on the reliability of customers to grant credit, would depend on such a cartel of banks. Banking monopolies concealed the great danger of threatening free competition and flexibility in the financial market. As Einaudi wrote: *“In Italy it seems to have become a canon to repress useless and harmful forms of competition and to promote banking agreements and cartels. The trend towards the trustification of the banking industry is promoted by that minister, who should be protecting the general interests of the country”*⁸¹.

Einaudi explained why bank takeover operations were dangerous. These were operations in which people appeared on the stock exchange and offered a certain amount of money (e.g. 900, then 950, then 1000 lire) for a share whose value was much lower the day before (e.g. 870 lire). The buyer's offer/payment was a legal action, which greatly benefited the seller, since the sale took place at a very convenient price for the latter. For the buyer, the advantage was not so much of an economic nature, but rather due to the fact that, once he had achieved a majority, he became master of the board of directors, thus gaining control of the bank's current accounts and deposits⁸².

This is why bank runs were dangerous. The depositors/current holders who brought their savings to the banks trusted them, the bankers' management of their savings, and

⁸⁰ *Ibidem*, pp. 52-53.

⁸¹ *Ibidem*, p. 54, contained in Einaudi, L., (1918), “La scalata delle banche”, *Il Corriere della Sera*, 2 July.

⁸² *Ibidem*, pp. 58-59.

aimed at the security of the funds received. A bank governed by its own customers, who consequently would not have paid enough attention to the safety of the funds received by those who deposited them, looking only after their own interests, would have been bad. According to Einaudi, remedies of a legal nature, such as a ban on the purchase of bank shares imposed on clients or the pretence of legally regulating the categories of clients who could buy share packages, would not have been sufficient to counter the attempts at takeover.⁸³

The solution therefore had to be a moral one. In particular, the directors of the big banks would have to persuade a group of shareholders to give up their free disposal of their shares, a constraint that would have meant that shareholders would have to inform other shareholders before selling their shares. In order to re-establish a proper balance in the banking sector and to avoid sudden takeovers, according to Einaudian liberal thought, the market's ability to self-regulate itself, sometimes following moral rules that would allow directors to manage the bank responsibly, was crucial⁸⁴.

The intermingling of banks and industry and the speculation caused by attempted takeovers aggravated a crisis situation that reached its peak when the Banca Italiana di Sconto collapsed (1921), which had negative repercussions for the entire banking system. This gave rise to a debate centred on the risks and consequences associated with free banking. With a view to saving the institutions and safeguarding investors, given the social function attributed to savings, the conviction took hold that, in difficult events for the banks, it was possible for the state to intervene in the first person. On the

⁸³ *Ibidem*, pp. 59-60

⁸⁴ *Ibidem*, pp. 60-62.

other hand, however, there was the fear that such interventionism could have consequences for free competition.⁸⁵

In 1921, Einaudi stated that in his opinion an assessment of possible future increases in the circulation of money was necessary before the state intervened. Such state intervention was permissible in the case of immediate necessity, when issuing institutions had to meet the liabilities of a solid bank, waiting for it to return assets with a short maturity. Otherwise, the purpose of such intervention would be the survival of ‘artificial and living industries only with the help of customs duties’⁸⁶. According to the economist, the problem did not lie so much in the amount of money invested in government bonds and the portion of equity, but rather in the remaining deposits misused by bankers, on which even state surveillance would be useless, since they have infinite ways of covering up the true nature of their actions⁸⁷.

As Einaudi points out, the closure of the branches of the Banca Italiana di Sconto on 9 December 1921 and, more generally, the signs of instability and fragility in the post-war banking world, were linked to a mistaken and careless management of money and savings by bankers. State intervention was only necessary in retrospect to plug losses and guarantee savers. However, the solution, Einaudi insisted, should not be of a legislative nature, but should be aimed primarily at the training processes of men to make them fit for banking management. In fact, the banker’s role was a very delicate one: he had to provide for the use of depositors’ money while minimising risks⁸⁸.

⁸⁵ *Ibidem*, pp. 62-63.

⁸⁶ *Ibidem*, p. 64, contained in Einaudi, L., (1963), *La specie di intervento bancario*, in *Cronache economiche e politiche di un trentennio (1893-1925)*, vol. VI, Einaudi, Turin, pp. 467-470.

⁸⁷ *Ibidem*, pp. 64-65.

⁸⁸ *Ibidem*, pp. 78-81.

With the rise to power of fascism, marked by the march on Rome in October 1922, and the lack of confidence of savers in the banking system following the bankruptcy of the Banca Italiana di Sconto, the world of credit was experiencing a very delicate moment. The fear that such events could occur led Mussolini to immediately manifest his desire to prevent this from happening, placing the protection of savings and its social function at the centre of Fascism. Saving was no longer linked to individual interest, but to national welfare, and became a social duty. It was in this context that state aid to credit institutions was introduced, bringing the public apparatus and the banks even closer together and leading to the idea of a ‘fascist’ bank’⁸⁹.

Einaudi emphasised the prohibition, which should also be extended to a possible ‘fascist’ bank, to use the law or the force of persuasion of the rulers to use the savings of depositors: “*Let the fascist bank, if it is created, receive the voluntary deposits of its members; but do not dispose of even one cent of the billions deposited in the post office savings banks and administered by the Deposit and Loan Bank*”⁹⁰. Einaudi’s misgivings about the creation of a possible ‘fascist’ bank was that, compared to one ‘without adjectives’, it would have been very difficult to find a good banker, since his actions were conditioned by the political connotation he carried with him.

But the greatest risk according to the economist was the following: “The manager must fight against those who, being neither probable nor capable, ask him for money by virtue of their adjective, because they are Catholics, because they are socialists or because they are fascists. If he yields for an instant, fatally, he leads the bank to ruin”⁹¹.

⁸⁹ *Ibidem*, p. 81.

⁹⁰ *Ibidem*, p. 83, contained in Einaudi, L., (1924), “Banche con aggettivi”, *Il Corriere della Sera*, 23 August.

⁹¹ *Ibidem*, p. 84.

In conclusion, to avoid bank failure, a banker should have the freedom to choose his customers regardless of political colour.

3.6 The einaudian polemic on the growth of state interventionism in the post-war period

Einaudi, who was Governor of the Bank of Italy and President of the Republic (1948-1955), had a relationship that was not without friction with Francesco Saverio Nitti. Since the beginning of the 20th century, although they agreed on some issues to be resolved, such as the causes of the imbalances existing on Italian territory, they disagreed about the remedies to resolve these problems: on the one hand Nitti supported a protectionist policy and expansionary fiscal operations to overcome the gaps between North and South, on the other hand Einaudi was convinced that these would be ineffective remedies⁹².

In particular, harsh criticism was leveled by Einaudi against the INA, the life insurance monopoly established by Nitti in 1911. Those who had designed these laws, according to the Italian economist, *“imagined they could confiscate without compensation, carrying out an act of public robbery, [...] not only the income of the industry, but also that of the private asset funds of the insurance companies”*⁹³. Einaudi continued: *“The problem [...] has become distressing today, when practically all the large banks, which the public imagines to be private, are instead state banks or dependent on the state or administered by delegates of the state”*⁹⁴.

⁹² Castellani, L., Luigi Einaudi e Alberto Beneduce: convergenze e divergenze nei decenni dello Stato interventista.

⁹³ Einaudi, L., (1960), *Cronache economiche e politiche di un trentennio (1893-1925)*, Einaudi, Turin, p. 37.

⁹⁴ *Ibidem*, p. 39.

Then, during the First World War, Einaudi found himself arguing about the fiscal monopolies launched by Nitti in his role as Minister of the Treasury, as he was vehemently opposed to new bureaucracies dedicated to monopoly and to restricting competition⁹⁵. Again, during the conflict, on the occasion of Nitti's creation of the National Exchange Institute, whose administrator was Nitti's student Alberto Beneduce, Einaudi, referring to the latter, criticized it as "he tightens exchange rates, creates a scary machine for the post-war period"⁹⁶.

In 1918 Einaudi also showed himself to be at odds with the banking cartelization endorsed by Nitti to mitigate competition between banks, as according to him it was centralist and the government would have had a crucial role in coordinating and directing the anti-competitive banking market. If for the Nittians the war economy had constituted a sort of first regulation of the underlying anarchy of trade, for Einaudi it constituted a major obstacle to the free regulation of supply and demand⁹⁷. Thus, at the end of the war, while the reconversion from the war economy to the peace economy was taking place, Einaudi's liberalism clashed with the state interventionism supported by the Nitti supporters, including Vincenzo Giuffrida, to whom between 1919 and 1920 addresses some criticisms in the *Corriere della Sera*.

We read: "He is perhaps the most typical representative, the strongest and the most strong-willed of a whole phalanx of officials who emerged from the war, who during the war due to the necessity of circumstances, due to the weakness of men in

⁹⁵ Castellani, L., Luigi Einaudi e Alberto Beneduce: convergenze e divergenze nei decenni dello Stato interventista.

⁹⁶ Einaudi, L., (1960), *Cronache economiche e politiche di un trentennio (1893-1925)*, Einaudi, Turin, p. 686.

⁹⁷ Castellani, L., Luigi Einaudi e Alberto Beneduce: convergenze e divergenze nei decenni dello Stato interventista.

government, due to the applause of masses exasperated by the rise in the cost of living, firmly believed that they had saved the country, that they had done everything, that they had curbed speculation, that they had kept prices in check [...]. They are convinced that without their work, Italy is destined for ruin and disorder”⁹⁸.

The relationship of mutual esteem between Einaudi and Beneduce was particular, as they found space for collaboration despite the evident difference in views. If the former was against any form of intervention by the State, the latter was instead convinced that public intervention was crucial for the development of the Italian economy. There will then be a distancing of the two Italian intellectuals with the rise of the fascist regime, given that the liberalist withdrew from the academic scene in those years, while the interventionist, thanks to a close relationship with Mussolini, became a close collaborator of the government. Another figure esteemed by Einaudi, despite the divergent ideas, was that of Bonaldo Stringher, another master of Beneduce and one of the architects of state intervention, who had pushed to create public bodies and banks to support the economy and industry after the First World War⁹⁹.

With a view to finding an acceptable compromise between the resolution of the banking crisis and the protection of the balance between State and market, Einaudi’s opinion emerged that a solution could be represented by the IRI (Institute for Industrial Reconstruction). It is an entity created in 1933 as a temporary and preparatory entity to disinvest industrial shareholdings in favor of the market, after the public holding company had taken over the banking shareholdings in the industries¹⁰⁰.

⁹⁸ Einaudi, L., (1960), *Cronache economiche e politiche di un trentennio (1893-1925)*, Einaudi, Turin, p. 532.

⁹⁹ Castellani, L., Luigi Einaudi e Alberto Beneduce: convergenze e divergenze nei decenni dello Stato interventista.

¹⁰⁰ *Ibidem*.

Einaudi, regarding the banking law of 1936, whose main architect was Beneduce, in the newspaper *The Economist* of 1936 defines it in this way “*a far-reaching reform was decided on at the last session of the Cabinet Council. The pivot of the reform is the transformation of the Bank of Italy from an ordinary and issuing bank, primus inter pares, into a fully equipped Central Bank on the modern pattern*”¹⁰¹. Although not falling within the ideology of a libertarian such as the Italian economist, these were solutions which, in light of the international financial crisis of 1929 and fascist authoritarianism, were the least painful solution among those which promoted state intervention in with a view to supporting the Italian economy. Given the context, Einaudi, although not agreeing with a doctrinal perspective, recognized its political importance¹⁰².

There was a strong belief in Einaudi and Beneduce that, taking the United States as an economic model and political reference, it was necessary for Italy to have a crucial international anchoring in the Italian political-economic context. Although they have different perspectives on the optimal relationship between State and market, the two Italian intellectuals shared an aversion towards fascist corporatism and skepticism about the concrete potential of the great Italian private capitalism of the time, which showed great propensity to implement protectionism. Both shared the vision that the basis of economic and socio-cultural development was industry, managerial and entrepreneurial skills; that at the basis of Italian economic and infrastructural growth there was an orderly financial market, crucial for the supply of the necessary capital¹⁰³.

¹⁰¹ FLE, Opera Omnia di Luigi Einaudi, (1933), “Italy”, *The Economist*, 21 mar, pp. 644-645.

¹⁰² Castellani, L., Luigi Einaudi e Alberto Beneduce: convergenze e divergenze nei decenni dello Stato interventista.

¹⁰³ *Ibidem*.

CHAPTER FOUR

Guglielmo Ferrero: the Latin federation, the Tragedy of Peace, the legitimacy theory and the importance of self-regulation

4.1 The theory of the “modern war” and the idea of the Latin federation

Guglielmo Ferrero, a historian from Portici (Campania), originally from a middle-class family in Piedmont, showed awareness as early as 1914, when the First World War broke out in eight days, that it was an irreversible conflict that, unique in its kind, was defined by him as “*a huge catastrophe, not just a war, [...] but, like the advent of Christianity and the French Revolution, it is a historical cataclysm*”¹⁰⁴. Ferrero understood the profound changes that the Great War would bring about for the world landscape¹⁰⁵. Once peace had been achieved, the inability to return to normality would emerge: “*we would then all realize that the current of history at that point plunged into a chasm, only to reappear at a great distance, with changed trim and direction*”¹⁰⁶.

Analysing the root causes of the conflict, the Italian intellectual pointed the finger at Germany, aware, however, that to a greater or lesser extent, there was co-responsibility on the part of the whole of Europe because over the years it had given rise to the clash of interests of various kinds (economic, political, military) without having succeeded in defusing these accumulated tensions, which then resulted in the crisis of 1914¹⁰⁷. Hence the emergence of borderless global competition in the pursuit of progress. Hence

¹⁰⁴ Ferrero, G., (1915), *La guerra europea, studi e discorsi*, Ravà, Milan, p. 77.

¹⁰⁵ Lacita, C.G., (2017), *Grande guerra e idea d'Europa*, Franco Angeli, Milan, p. 97.

¹⁰⁶ Ferrero, G. (1915), *Prefazione*, in *Le atrocità tedesche in Francia: Relazione ufficiale*, Ravà, Milan, p. XI.

¹⁰⁷ Lacita, C.G., (2017), *Grande guerra e idea d'Europa*, Franco Angeli, Milan, p. 97.

the race for rearmament, for military technological escalation¹⁰⁸. All countries aspired to excel in a “*relentless, fierce, sometimes puerile struggle, which gradually inflamed tempers from frontier to frontier*”¹⁰⁹.

The First World War, Professor Ferrero suggested, was configured as a new type of war without limits or absolutes whose aim was not so much the infliction of defeat on the enemy or the demonstration of military superiority, but rather to annihilate the enemy, using all available resources (economic, technical and human). The configuration was therefore that of material warfare (*Materialschlacht*), from which the faction with the most resources at its disposal would emerge victorious. For the first time, men (aged between 17 and 44) who had never fought before, who were not professionally trained to do so, were sent to fight. To make up for this shortcoming, baseless sentiments were instilled in them, such as hatred of the enemy, referred to as a cowardly aggressor¹¹⁰.

Testimony to this theory of modern warfare is a text entitled ‘*In the Unlimited*’, published in the *Journal of Latin Nations (La Rivista delle nazioni latine)*, of which Ferrero was co-editor with Julien Luchaire from 1916 to 1919¹¹¹. Here the interesting metaphor of the swimmer appears: this one, swimming in the open sea, would not be able to make a measurement of his efforts if there were no fixed points to refer to (e.g. a buoy or a rock); and, not being able to perceive distances, the risk is to think he is holding out too long. Similarly, modern warfare pursues excess and, by losing its sense of limit, transforms what was a regulated clash into an apocalypse¹¹².

¹⁰⁸ Mosca, G., Ferrero, G. & Mongardini, C., (1980), *Carteggio, 1896-1934*, Giuffrè, Milan, p. 263.

¹⁰⁹ Ferrero, G., (1915), *La guerra europea, studi e discorsi*, Ravà, Milan, pp. 157-158.

¹¹⁰ Lacita, C.G., (2017), *Grande guerra e idea d'Europa*, Franco Angeli, Milan, p. 98.

¹¹¹ *Ibidem*, p. 98.

¹¹² Ferrero, G., (1918), “Nell’illimitato”, *Rivista delle nazioni latine*, 10 feb, II vol., pp. 1-12.

According to Professor Ferrero, at the end of the Great War, the salvation of Europe would depend on the *Latin genius*, which was to contribute to the archiving of the German model in all respects (political, cultural, social, economic). *The Journal of Latin Nations* aimed at defining and exploring the Latin identity with a view to new understandings and projects focused on the future of the European continent, in an attempt to strengthen that kind of cultural diplomacy for the purpose of promoting foreign policy issues and forming an attentive public opinion, while at the same time making its own contribution to ensuring that the common war effort would be effective¹¹³.

France had seen an easing of the odds when Italy entered the war on the side of the Entente, but total brotherhood of arms between France and Italy was only determined when the Italian government declared war on Germany in the summer of 1916. The Italian historian, who became in favour of Italian intervention in the war between 1914 and 1915, emphasised that the reasons for Italy's entry into the war had less to do with a territorial calculation than with a moral, political or cultural one: Italy entered the war to protect democratic ideals and for reasons that concerned civilisation, and on which the post-war understanding was to be based¹¹⁴.

A kind of veiled anti-Germanic racist sentiment was aroused in Ferrero, albeit in more subdued tones than in others such as Luchaire. The search for a Latin identity was pursued in an obsessive and antithetical manner with respect to the German identity, which was read in a negative light. Together with Luchaire, the historian from Portici in 1915 took part in a number of public meetings held in Sicily to promote conferences

¹¹³ Lacita, C.G., (2017), *Grande guerra e idea d'Europa*, Franco Angeli, Milan, pp. 99-100.

¹¹⁴ *Ibidem*, p. 100.

on the Italian-French brotherhood of arms, aimed at soldiers and civil society. This shows how Ferrero contributed, through the Review, to consolidating relations between the members of the Entente¹¹⁵.

Ferrero, along with others, also championed the idea of the Latin federation, a high issue appearing in *The Journal of Latin Nations*. This idea consisted in the creation of a union between the allied Latin countries, which would guarantee each of them to remain independent, which other countries could join in the future, and whose configuration would be that of a federation or confederation¹¹⁶. It would have been the task of intellectuals and politicians to analyse the scope of such a project, its pros and cons, how to overcome any obstacles encountered, both in relation to member states and in an international perspective¹¹⁷.

The question remains as to whether the semantic and conceptual imprecision with which, looking at the lexical insecurity between union, federation and confederation, this project was conceived was intentional or the result of naivety. As emerges from the debate, the evolution of the military alliance into an entity such as a federation was preparatory to the containment of Germany, whose desires for European hegemony from various points of view (cultural, political and economic) made it an eventual danger. Underlying the idea of a Latin federation was the unfounded belief that, despite five years of war effort, Germany would remain a great power. The risk was that by reducing such a Latin Union to a purely defensive, anti-German function, it would mean the loss of its broader peacemaking value¹¹⁸.

¹¹⁵ *Ibidem*, pp. 101-102.

¹¹⁶ *Ibidem*, pp. 103-104.

¹¹⁷ Ferrero, G., (1917), "Il momento è giunto", *Rivista delle nazioni latine, Verso la Federazione*, 1 feb, II vol., pp. 1-12.

¹¹⁸ Lacita, C.G., (2017), *Grande guerra e idea d'Europa*, Franco Angeli, Milan, pp.104-105.

Despite the evident limitations of the proposal of a Latin federation, the debate in *The Journal of Latin Nations* saw many interlocutors agreeing on certain points. Among these, there was agreement on the vision of a union/confederation, whose founding nucleus was Italy and France, with variable geometry, i.e. capable of gradually extending to the other European countries (Portugal, Spain, Belgium), but descending from ethnic-racial affiliations¹¹⁹. Others saw the Latin Union only as an intermediate and temporary step towards the “*establishment of a large federal body*”¹²⁰.

The project of a Latin union/federation took concrete form in the idea of a customs union between France and Italy and the creation of a common economic space, supported by choices of gradual convergence in the legislative order, the introduction of the obligation to teach both the Italian and French languages in schools, and citizenship rights. There was the conviction that the traumatic rupture produced by the war had placed the community in a position to be more inclined to change, the conviction that the post-war situation would be a political conjuncture from which the rearrangement of the international order would arise¹²¹.

Guglielmo Ferrero, who served as vice-president of the Italian Committee for the Universal League of Free Nations, agreed with the speech read in Milan in 1918 by Arcangelo Ghilseri at the Italian Congress for the League of Nations, which later received publication in the *Journal of Latin Nations*¹²². Ghilseri’s words showed close support for US President Wilson’s League of Nations project. However, they contained an admonition concerning the principle of the self-determination of peoples which, if

¹¹⁹ *Ibidem*, pp. 103-104.

¹²⁰ Ponti, E., (1917), “Risposta”, *Rivista delle nazioni latine, Verso la Federazione*, 1 mar, II vol., p. 536.

¹²¹ Lacita, C.G., (2017), *Grande guerra e idea d’Europa*, Franco Angeli, Milan, pp.105-106.

¹²² *Ibidem*.

treated as an imperative rule on which to build the new European architecture, would end in the destruction of Europe itself: “*When interests conflict over boundary issues, fair arbitration must intervene to make the highest and commonest interests prevail*”¹²³.

4.2 The Tragedy of Peace and the “tissue paper treaties”

Professor Ferrero, in his book *The Tragedy of Peace (La Tragedia della Pace)*, at the end of the First World War, points out that it was quite obvious that just reparations were required towards Germany, which had waged the war with the aim of ruining its enemies. In his view, the task of governments was not to foment the resentment, albeit just, that hovered, but to appease it. Instead, for example, British Prime Minister Lloyd George was certain in public that Germany should fully compensate other countries for war expenses. Faced with such statements, Ferrero writes: “*But when the great are delusional, who can hope that the people will be saved? The obsession with indemnity took hold of the public spirit*”¹²⁴.

During the peace negotiations, the discussions did not touch on topics such as how to measure and obtain reparations in a fair manner, but rather figures were proposed out of thin air. In their haste to bring the lengthy negotiations to a swift conclusion, the Reparations Commission, charged with fixing these sums, did not realize that the sentence they were imposing on Germany was one of perpetual debt payment which, at an annual interest rate of 5 per cent, would see it owe the same amount within 30 years. On this the Italian historian writes: “*There are no illusions. These abortive and*

¹²³ Ghilseri, A., (1919), “Che cos’è una azione?”, *Rivista delle nazioni latine*, 1 Jan.

¹²⁴ Ferrero, G., (1923), *La tragedia della pace. Da Versailles alla Ruhr*, Edizioni Athena, Milan, p. 109.

*inconsistent reparations, instead of repairing the damage done by the war, will also spoil what the war has escaped”*¹²⁵.

The French claimed that Germany could pay for the reparations; however, they also assumed that Germany wanted to pay, and this was the mistake: in order to pay for the reparations, the Germans would have to work for free. Germany would have faced substantial depopulation if it had been forced to work for its victims. German industry had already begun to see emigration, given the appalling taxes that were emerging. As Ferrero reports: “*The world war impoverished Germany more than its enemies. [...] But how could one hope that impoverished Germany would want to and could remake everything that its armies had devastated?*”¹²⁶.

Alluding to treaties ‘*made of tissue paper*’, Ferrero accuses the signatories of the Treaty of Versailles of immediately regretting clauses that could not be revoked. According to the Porticese historian, the criticism of the treaty of being unfair, oppressive and dictated by anger and hatred is exaggerated. The Treaty of Versailles was to benefit from the spontaneous consent of the peoples to look upon the conditions it contained as an imperative law¹²⁷. This is the Italian historian’s denunciation: “*For a treaty not to remain a dead letter, it is necessary that either the vanquished recognizes it and considers himself obliged to obey it; or that the victor does not dare to rebel and observes it. The Treaty of Versailles evades both of these requirements. This is its real defect*”¹²⁸.

¹²⁵ *Ibidem*, pp. 109-110.

¹²⁶ *Ibidem*, p. 111.

¹²⁷ Lacita, C.G., (2017), *Grande guerra e idea d’Europa*, Franco Angeli, Milan, pp. 107-108.

¹²⁸ Ferrero, G., (1923), *La tragedia della pace. Da Versailles alla Ruhr*, Edizioni Athena, Milan, p. 116.

The climate in Europe was characterised by a kind of secret evil that was uncertainty: on the one hand Germany's dubious hopes were directed towards a dissolution of the enemy coalition; on the other hand, France was unsure whether the coalition with which victory had come would remain and whether, in the event of dissolution, the Treaty of Versailles would be sufficiently effective in maintaining peace. In the words of the historian from Portici: "*The other powers await events, doing nothing to clarify that uncertainty, speaking as if the coalition still existed and acting as if it no longer existed*"¹²⁹. In the tacit hope that the treaty would take on the significance of a mere piece of paper, Germany began to try to stall for time, slowly advancing the implementation, one by one, of the treaty's less burdensome commitments. On the other hand, France's desperate attempts, fearful that the treaty would eventually turn out to be a 'dead letter', were aimed at keeping the coalition together.

Persuaded that the United States held the crucial role of stabilizer for world peace, and that Europe should involve it in continental politics, Ferrero observed how ungrateful the European powers had been towards this emerging power. From a perspective of world political responsibility, it was necessary to bring out and highlight the reasons that had characterized the justness and necessity of US intervention in the conflict¹³⁰. In fact, America was at the head of a complicated web of credits and debts between the various countries that, at the end of the conflict, saw it as the creditor of all other countries.

It was obvious that all the commitments made by the states had to be fulfilled. However, there was one obstacle that was difficult to overcome, which was the most

¹²⁹ *Ibidem*, p. 117.

¹³⁰ Lacita, C.G., (2017), *Grande guerra e idea d'Europa*, Franco Angeli, Milan, pp. 109-110.

bitter consequence of the war: fortunes were unequally distributed, with many becoming poorer and a few becoming richer. As Ferrero wrote in 1922: “*Only the largest classes can feed the exchequer with large sums. On the largest classes lived the great states before the war. But who can think that the people and the middle classes exhausted by the war could today provide the state with the immense sums with which it could free itself*”¹³¹.

Considering the debt issue, the historian of Portici offered a solution consisting not so much in the cancellation of debts, but rather in their general reduction. The creditors would have to reduce their demands to a minimum, while the debtors would have to show a serious attitude towards their commitments, which would be greatly reduced. This universal reduction would have mainly disadvantaged America, which should therefore have received political compensation. This is how Ferrero highlights the importance of such a solution: “*But it seems obvious to me that, without this agreement, there is no way to escape a moral shattering of Europe, even more heinous than the disorder, which today rages*”¹³².

4.3 The legitimacy theory and the illegitimate (or revolutionary) government

As reported by his son Leo in his diary of 1926-27, Guglielmo Ferrero was summoned in 1918 by the prefect of Florence, where he was residing at the time, on the orders of Prime Minister Benito Mussolini. The reason was a letter sent to an American acquaintance in which the Italian historian’s criticism of the freedom of movement of his people appeared, which was later published in a New York newspaper. This had

¹³¹ Ferrero, G., (1923), *La tragedia della pace. Da Versailles alla Ruhr*, Edizioni Athena, Milan, p. 182.

¹³² *Ibidem*, p. 184.

prompted Mussolini to excommunicate Ferrero, to his surprise¹³³. Following this event, Mussolini, out of fear, proceeded after not even 30 days with the promulgation of a decree limiting press freedom, authorizing only newspapers considered inoffensive or controlled¹³⁴.

A crucial theme in the Portici historian's argument is the unmasking of fear in the revolution: it was a deep-seated feeling inherent not only in the subjects who had to submit to the new rising power, but especially in those who had made the revolution themselves. Therefore, Ferrero's focus is on those who governed illegitimately. Mussolini's power came from an arbitrary act outside the boundaries of legitimacy, so it was a power without foundation. This is why he was so terrified of freedom of expression. In Professor Ferrero's conception, man can become a slave to terror to the point of aggressive behaviour¹³⁵.

The process of civilisation and revolutions do not eliminate, but exalt fear, understood by the historian as a feeling that only man can experience. While an animal can be afraid, man is the only one who is truly afraid, because he knows what death is. Moreover, only human beings can provide for the manufacture of weapons, which, intended to defend themselves against pitfalls and to eliminate fear, do nothing but create terror. This is how power is born according to Ferrero: "*Power, like the weapon, is originally a defence against the two greatest terrors that plague humanity: anarchy and war*"¹³⁶.

¹³³ Ferrero, L. (1946), *Diario di un privilegiato sotto il fascismo*, Passigli, Florence, pp. 75-83.

¹³⁴ Lottieri, C., (2015), "Guglielmo Ferrero in Svizzera. Legittimità, libertà e potere", Edizioni Studium, Rome, p.22.

¹³⁵ *Ibidem*, pp.22-23.

¹³⁶ Ferrero, G. & Pellicani, L. (1981), *Potere: i Geni invisibili della Città*, SugarCo, Milan, p. 39.

However, this power, in order to be conducive to defending against fear, had to be characterised by legitimacy. And the fear displayed by Mussolini was a symptom of his awareness of the destruction of monarchical and democratic principles of legitimacy. What Mussolini and Napoleon had in common was their willingness to place the destruction of the previous order at the basis of power: the illegitimacy of the first tyrant before the Italian people consisted in the destruction of the instruments designed to defend personal freedom (including the right to vote); as for Napoleon, his illegitimacy was, in the eyes of the monarchists, linked to the usurped position that belonged to the Bourbons by right, whereas for the republicans he had not been appointed First Consul according to democratic procedures¹³⁷.

In the face of such power that was dominated by fear and the need to terrorise citizens, perceived as unjust, the intellectual from Portici, theorising on the possible forms of power and legitimacy, points out how the Kingdom of Italy fell into that type of political order that, in the words of Carlo Lottieri, “*are not legitimate without being truly illegitimate*”¹³⁸. This is what Ferrero calls ‘quasi-legitimacy’: “*there are regimes that, without being legitimate, can count on sufficiently large consensuses so that they are not forced to impose themselves, like the illegitimate, only by force, by bribery and by demonstration*”¹³⁹. If an aristocratic monarchy is accepted and enjoys recognition, it may be preferable to a democracy deemed illegitimate by its subjects.

One of the hottest points in Ferrero’s theory of legitimacy was that it was a good thing that state power was accepted, but not that it was idealized. The architecture

¹³⁷ Lottieri, C., (2015), “Guglielmo Ferrero in Svizzera. Legittimità, libertà e potere”, Edizioni Studium, Rome, p.25.

¹³⁸ *Ibidem*, p. 26.

¹³⁹ Ferrero, G. & Pellicani, L. (1981), *Potere: i Geni invisibili della Città*, SugarCo, Milan, p. 240.

envisaged by the Italian intellectual was that of established institutions, without fear, but in which power was not used in a passionate way, was not worshipped. Ferrero's political realism aims to safeguard the civil order by focusing not so much on institutions, but rather on real people: the politicians, the citizens, the rulers and the ruled.

The historian's analysis is directed at highlighting how instead Mussolini imposed his power in the early 1920s on the ruins left over from the war¹⁴⁰. As Ferrero wrote to his friend Mosca: "*A government is not really a government until it has succeeded in persuading all those who obey it that it has the right to command*"¹⁴¹. Thus, the government is called to confront the legitimacy attributed to it by the consent of the citizens.

Inevitably evading confrontation with the will of the citizens, since it arises from a coup d'état, the regime that emerged from a revolution is also to be considered illegitimate. According to Professor Ferrero's definition of revolutionary power, it is "*a regime in which power is attributed and exercised according to rules and principles imposed by force for a short time, and which the vast majority does not accept*"¹⁴². Illegitimate governments, which are typically revolutionary governments, in the modern era are created by democracies that do not enjoy the two conditions of legitimacy: the right of opposition and the freedom to vote.

Based on the Napoleonic example of the murder of freedoms (of the press, etc.) and built on propaganda as mass lies, such illegitimate power would have meant the coming

¹⁴⁰ Lottieri, C., (2015), *Guglielmo Ferrero in Svizzera. Legittimità, libertà e potere*, Edizioni Studium, Rome, pp. 30-31.

¹⁴¹ Mosca, G., Ferrero, G. & Mongardini, C. (1980), *Carteggio, 1896-1934*, Giuffrè, Milan, p. 331.

¹⁴² Ferrero, G. & Pellicani, L. (1981), *Potere: i Geni invisibili della Città*, SugarCo, Milan, p. 208.

into existence of many enemies and traitors. Therefore, the new, illegitimate power was forced to be in constant conflict: “*Aggressive fear, which is the essence of all Napoleonic warfare*”¹⁴³. Revolutionary power manifests itself in two practices, which constitute two initial stages: generalized espionage and censorship. From there, the illegitimate government will seek to monopolize the other branches of power, e.g. by controlling industry, agriculture, trade, social life, and so on¹⁴⁴.

A term Ferrero used several times is ‘*futuristic*’. Proof of this are some letters to his friend Mosca between 1923 and 1931. In particular, towards the end of 1923 the Italian historian describes the new Italian system in force as futurist¹⁴⁵. And, in January 1926, criticizing Mussolini’s victory and the ongoing revolution that would lead to an absolute monarchy, he called it futuristic¹⁴⁶. The result was a break with the past, not the result of the free choice of citizens, but of a project whose objective was to create new laws and impose a new order regardless of what citizens wanted or their rights¹⁴⁷.

For the Italian intellectual, political rules had to be the result of free and spontaneous development and evolution, and not of creation/imposition. Therefore, legitimacy needed time and, even in cases where political decrees authoritatively sanction the establishment of new laws, time was needed for society and citizens to absorb them. In Ferrero’s conception of legitimacy, as Lottieri writes, “*The illegitimate (or revolutionary) government is a government that does not comply with the laws it has*

¹⁴³ *Ibidem*, p. 230.

¹⁴⁴ Lottieri, C., (2015), *Guglielmo Ferrero in Svizzera. Legittimità, libertà e potere*, Edizioni Studium, Rome, p. 35.

¹⁴⁵ Mosca, G., Ferrero, G. & Mongardini, C. (1980), *Carteggio, 1896-1934*, Giuffrè, Milan, p. 346.

¹⁴⁶ *Ibidem*, p. 366.

¹⁴⁷ Lottieri, C., (2015), *Guglielmo Ferrero in Svizzera. Legittimità, libertà e potere*, Edizioni Studium, Rome, p. 42.

*put in place, but such behavior is both a will and an impossibility: it does not want to and also cannot comply with the laws it has decreed”*¹⁴⁸.

4.4 The positive role of religion and the importance of self-regulation

According to Professor Ferrero’s arguments, the deep crisis of the European continent and its post-war culture had manifested itself in a revolution, in a crisis whose nature was moral and religious. Crucial became the relationship between the rupture caused by the revolution and the inner anguish that invested civilisation. Thus, according to Ferrero, revolutionary power, being afraid of being overthrown because it was illegitimate, also ended up destroying democracy, given the failure to recognise the freedom to vote and the right of opposition. The fact that revolutionary regimes are totalitarian stems from this rupture, a manifestation of the desire to make a tabula rasa and build an entirely new order¹⁴⁹.

The French Revolution of 1789 would be repeated, partially or completely, by other revolutions in Europe. As Arendt reports, rupture is linked to the idea of violence, and it is from the bloodiest wars that modern revolutions take place: *“It would be hard to deny that one of the reasons why wars have so easily turned into revolutions and why revolutions have always shown this sinister inclination to start wars is that violence is a kind of common denominator for both”*¹⁵⁰. A plausible solution to avoid the dangers arising from power without legitimacy was religious in character and saw religion playing a positive role within society.

¹⁴⁸ *Ibidem*, p. 44.

¹⁴⁹ *Ibidem*, pp. 52-53.

¹⁵⁰ Arendt, H., (1993), *Sulla Rivoluzione*, Comunità, Milan, p. 11.

Ferrero agrees with Arendt that religious crises in European society lead to the breakdown of all moral rules. Hence a conception of religion as the realizer and defender of European civilization. The greatest revolution in history is, according to the Italian intellectual, Christianity¹⁵¹. It was not so much a political revolution as a moral one, “*which destroyed forever, in the West, the Pharaonic spirit*”¹⁵². Ferrero insisted that the desire to create a new society out of nothing was linked to the emergence of a new Pharaonic spirit in European man, who “*will only accept order as a perfect and divine ideal; but not being able to create it perfectly, he will be seized by the frenzy to destroy it and remake it*”¹⁵³.

The revolutionary dangers that Europe was facing at the time were determined, in the perspective of the Italian historian, by the renunciation made by France and the whole of Europe. of the rules inherited from religion since the French Revolution. A manifestation of this conviction by Professor Ferrero is a letter sent to his friend Mosca in 1920, in which he emphasised how the French Revolution had brought about a replacement of all the religious-type principles of authority of the old orders with a new principle: the will or sovereignty of the people. Since it was based on a fiction, however, this principle did not stand¹⁵⁴.

Turning to an examination of Ferrero’s view of treaties that redesigned the European architecture, he states that “being by their nature an imposition of force, they should last as long as force is capable of imposing them. [...] Wars could only end with the

¹⁵¹ Lottieri, C., (2015), *Guglielmo Ferrero in Svizzera. Legittimità, libertà e potere*, Edizioni Studium, Rome, p. 57.

¹⁵² Ferrero, G., (1931), *La fin des aventures, guerre et paix*, Rieder, Paris, pp. 255-256.

¹⁵³ Ferrero, G. & Pellicani, L., (1981), *Potere: i Geni invisibili della Città*, SugarCo, Milan, p. 352.

¹⁵⁴ Lottieri, C., (2015), *Guglielmo Ferrero in Svizzera. Legittimità, libertà e potere*, Edizioni Studium, Rome, p. 58.

extermination of one of the two adversaries; treaties would be nothing more than truces”¹⁵⁵. The peace treaty thus consisted of the imposition of certain conditions but had to be read by those subjected to them as a commitment to accept them.

Ferrero’s conviction was that the emergence of completely new and illegitimate powers, therefore tyrannical, was favored by revolutionary projects¹⁵⁶. Central to the Italian historian’s reasoning is the theme of self-regulation: “*public order, [...] like moral order, can only exist through acts and processes of self-regulation*”, which was only possible if the elites were able to “*discover the simplest and most difficult of truths, of which the human spirit is both capable and incapable: that force is only useful to man if he knows how to limit himself*”¹⁵⁷.

According to the Italian intellectual, a state that had become stronger resulted in less credibility: “*its strength - gold and iron - grew as much as its authority - prestige and respect - declined*”¹⁵⁸. In Ferrero we find the conviction that in order to make the political order that governed the peoples of Europe authoritative, it was crucial to return to values and principles. In him we find the conviction, recalling the restoration that had affected ancien Régime Europe after the Napoleonic adventures, that a peaceful order would be restored after the great wars thanks to “*a moral aspiration for wisdom, loyalty, humanity in relations between men and states, which would prevent implacable wars along with abuses of force: an almost religious sentiment*”¹⁵⁹.

¹⁵⁵ Ferrero, G., (1948), *Ricostruzione: Talleyrand a Vienna, 1814-1815*, Garzanti, Milan, p. 116.

¹⁵⁶ Lottieri, C., (2015), “Guglielmo Ferrero in Svizzera. Legittimità, libertà e potere”, Edizioni Studium, Rome, p. 73.

¹⁵⁷ Ferrero, G., (1948), *Ricostruzione: Talleyrand a Vienna, 1814-1815*, Garzanti, Milan, p. 39.

¹⁵⁸ Ferrero, G., (1925), *Discorso ai sordi*, Corbaccio, Milan, p. 63.

¹⁵⁹ Ferrero, G., (1948), *Ricostruzione: Talleyrand a Vienna, 1814-1815*, Garzanti, Milan, p. 127.

Reflecting on the consequences of the First World War, Professor Ferrero in 1922, showing his opposition to the transformation of the international legal order, illustrated his concerns by means of an analogy with the ancien Régime, when it was thought that *“when two sovereigns are at war, neither of them should presume that their own cause is more just than that of their adversary or that their adversary is wrong in comparison”*. A sense of limitation and self-limitation must be the way to avoid the worst, otherwise *“war will become eternal and universal”*¹⁶⁰. Underlying the crucial role played by the rise of totalitarianism and reduced individual freedoms was, according to the Portici historian, a new collective power that was emerging between the 19th and 20th centuries, linking national patriotism and socialism¹⁶¹.

¹⁶⁰ Ferrero, G., Ferrero Raditsa, L. & Cedroni, L., (1997), *La vecchia Italia e la nuova*, Edizioni Scientifiche Italiane, Naples, p. 200.

¹⁶¹ Lottieri, C., (2015), *Guglielmo Ferrero in Svizzera. Legittimità, libertà e potere*, Edizioni Studium, Rome, p. 81.

CHAPTER FIVE

Einaudi, Keynes and Ferrero: convergences and divergences on measures to be taken

5.1 A common opinion on the Treaty of Versailles

As we have seen, both the Italian economist Luigi Einaudi and the Englishman John Maynard Keynes and the power scholar and historian Guglielmo Ferrero expressed a very negative opinion on the conclusions of the Paris Peace Conference. For all three, the Treaty of Versailles was too punitive towards Germany, above all due to the desire of France and, secondarily, of Great Britain, to humiliate the defeated nation by forcing it to sign a series of conditions that would have indefinitely prolonged its economic, military and strategic subjugation. It is no coincidence that there was talk in this regard of “*Pax Carthaginian*”, an effective expression used by Keynes.

Everyone foresightedly glimpsed the concrete risk that both the quantity of reparations requested from the Germans, the indeterminacy of the way in which they would be guaranteed, and the unknown of what would happen in the event of non-compliance, would create the conditions for an impoverishment progressive and ultimately to further conflict. “*An international financial order based on little more than a series of debts and reparations can only last so long*”¹⁶², he observed.

A Europe in which “*everyone was debtor to everyone*”, as Keynes wrote, and which depended on the credits that the United States would grant it, found itself in a condition of precariousness and subordination from which it would have been difficult to escape

¹⁶² Kirshner J. (2019), “The man who predicted Nazi Germany”, *The New York Times*, 7 dic.

without radically changing the economic policy setting and find a common vision on remedies. And on this, the League of Nations proved to be an inadequate instrument, reflecting a divergence of perspectives and solutions of which both Keynes and Einaudi were the reflection; and which the historian Guglielmo Ferrero himself highlighted.

Keynes' lucid and merciless analysis of the mistakes made in Paris was centered on the selfishness and revanchism of Clemenceau's France. But the Cambridge economist, while analyzing the unknowns that opened up for Europe in the absence of a reorganization of alliances and the organization of continental alliances, did not seem to place the concept of national sovereignty as a premise of future wars and the impossibility of creating lasting peace.

5.2 Einaudi against national sovereignty

In this respect, the comparison with the concerns expressed by Einaudi and Ferrero, and their attempt to develop a new system of rules and relations between states after the First World War shows a different cultural approach and vision. Keynes linked the dangers to the short-sightedness of the so-called "Great People" of the Peace Conference, to the imposed reparations, to the disastrous economic prospects that opened up for Germany. But on the level of the system of international relations it remained anchored to the concept of national sovereignty.

Perhaps also because he was the son of a Great Britain at the head of an empire, and attentive to the supranational interest filtered through the English national interest, he concentrated his analysis on other aspects. The differences compared to Einaudi, but also to Ferrero, were marked. Einaudi not only grasped the limits of the role and protagonism of the States. He went further, believing that only by limiting state

sovereignty and subordinating it to supra-state rules and organizations would the danger of nationalism and its distortions from which conflicts originated be reduced.

His criticism of the League of Nations started precisely from what he believed to be a wrong assumption, because the alliance was based on the national sovereignty of the individual member countries, and therefore in his opinion it was a harbinger of new wars. On the horizon, the Piedmontese economist saw an alternative Europe rebuilt by ceding part of its sovereignty to a continental federation, in which supranational rules and priorities prevailed over those of individual countries, lowering the rate of nationalism and national selfishness; and therefore eliminating the origin of possible sources of conflict. But everything, at that stage, was conspiring for things to go in the opposite direction.

5.3. Ferrero: why reduce debt without canceling it

As for Ferrero, his idea was that the main problem of an unrealizable peace treaty and therefore destined to turn out to be just “a piece of paper” was the quantity of debts that Germany would have to dispose of, but had no intention of disposing of, unless he had decided to work for the next thirty years for free. For Ferrero, this fundamental misunderstanding between the winners, France first and foremost, and the losers could have been at least partially reduced in its negative effects not by completely canceling the debt, but by reducing it in an acceptable manner: so that it could be paid and not evaded.

If, as the scholar from Portici observed, “*the World War impoverished Germany more than its enemies*”¹⁶³, How was it possible to hope that it would completely rebuild what his army had destroyed? In his view, the Treaty of Versailles was not an evil in itself, but due to the way in which it had been interpreted or, rather, misunderstood by all parties involved, it represented a time bomb destined to explode, although no one was able to predict how and when.

In comparison, Keynes believed debts between allies should be canceled first and foremost, as a prerequisite for consequently lowering the humiliating measures imposed on Germany. They both understood that the topic was the same, but it was difficult to intervene without displeasing someone. And in any case, it was not possible to find a solution shared by all the winners of the conflict. If the issue was the huge debt, Ferrero argued, action had to be taken on that to defuse the danger.

Hence his proposal, reported in the previous chapter: creditors would reduce their claims to a minimum, while debtors would undertake to make payments, having been established in a reduced and therefore more reasonable amount. It was an attempt to avoid a misunderstanding and a deception that sooner or later would have rekindled first social tensions within individual nations, and then aggression and conflicts between states. But the negative side effect of such a hypothesis would have been to damage the main creditor that emerged from the First World War: America.

The USA was unanimously considered the potential stabilizer of a disastrous economic situation in the Old Continent. And they presented themselves as creditors towards all European countries. Debt reduction therefore had to be agreed with the

¹⁶³ Ferrero, G., (1923), *La tragedia della pace. Da Versailles alla Ruhr*, Edizioni Athena, Milan, p. 111.

United States, offering not only financial guarantees but compensations of a different type: starting with a political recognition of their role in Europe also in the future. Otherwise, it would have been illusory to think that taxpayers across the Atlantic would continue to pump money into saving Europe's future. But without an agreement on the debt, Ferrero added, the situation in the Old Continent would have become incandescent.

5.4. If the US “exits” Europe

Comparing the positions of Keynes and Ferrero, one perceives an identical fear that isolationist pressures would increase across the Atlantic. And therefore the need was to avoid attitudes that could strengthen those in America who were pushing for a disengagement from the post-war problems in Europe. For both Ferrero and Einaudi, the role of the USA had become increasingly important. Einaudi proposed a European federation on the model of the US federal state as an alternative to the League of Nations, even if at the time it must have appeared to be a visionary and unrealistic solution. That was the system to be imitated as much as possible to defeat the temptations of exasperated nationalism: an organization cemented by shared and stringent rules, based on liberal values capable of defending democracy and its institutions from dictatorial temptations.

A more limited variant, even geographically, and perhaps equally difficult to realize at least in that phase, was the Union of Latin Countries imagined by Ferrero, with an objectively anti-German defensive profile: another way to underline the inadequacy and danger of the dimension national; and to bring together and strategically amalgamate states such as Italy, France and Spain, first of all, on the basis of common interests and roots, first cultural, then economic and military.

These hypotheses, however, although they appeared to go against the grain in a phase of persistent nationalism, had great merit and a minimum common denominator: they were all attempts to design a new system, which would replace the European order destroyed by the First World War; and the awareness that the national dimension was not only no longer enough but constituted a constant danger. The premise from which both Keynes, Einaudi and Ferrero started was the acknowledgment of a balance that had been lost forever.

But the differences became more pronounced on how to create another one, especially between Keynes and Einaudi. The latter dedicated a harsh article to criticize and dismantle the English economist's recipe for restarting the economy after the First World War: "*My plan is not that of Keynes*" (1933). It was a detailed response to Keynes' essay *The Means to Prosperity* (1933), although Einaudi used the word essay having found no better one: "*But in reality the word 'essay' does not translate well the concept of occasional writing, instrument of political or economic battle, which is characteristic of short vehement writings, in which practical battles were conducted or theoretical principles declared*"¹⁶⁴.

5.5 Italian and English "*hare pie*"

Einaudi would rather have preferred to define the English economist's writing as "*a pamphlet, but it can no longer be used, due to the misuse made of it*"¹⁶⁵. But, apart from the disagreements on definitions, what divided the two economists was the recipe offered. The illustrious Piedmontese rejected the Keynesian idea of reviving a wan

¹⁶⁴ Einaudi, L. (1933), "Il mio piano non è quello di Keynes", *Riforma sociale*, mar.-apr., pp. 129-142.

¹⁶⁵ *Ibidem*, p. 129.

European economy devastated by the war effort by suggesting growth based on consumption and an increase in inflation, through the introduction of substantial state funding on the financial markets. And he made the symbolic figure of ten billion.

“In old-fashioned countries and by old-fashioned economists like the writer”, Einaudi observed, “the answer to the question: where to find the 10 billion would be: from savers. Until a few years ago, when we talked about savings, we thought of the ‘pater familias bonus’, which earns 100 per year, month or day and, spending 80, takes the remaining 20 to the savings bank or bank”¹⁶⁶. And he concluded: “Without the hare you can’t make hare pies”¹⁶⁷. On the contrary, he noted alluding to the Keynesian recipe, “it seems that in advanced countries hare pies are now made with rabbits”¹⁶⁸.

When English economists “*hear about old-fashioned saving, they grimace*”¹⁶⁹, they prefer the “savings substitute” to saving. In practice, it meant asking the banks to reverse their priorities, allowing them a credit facility of 10 billion. And “*if private entrepreneurs do not want to know about asking for credit, [...] let the credit be granted to the State which does not need to deal “[...] with profits and costs”, and “can find a profit where private individuals would not be granted”*”¹⁷⁰. According to Einaudi, it was a distortion that would have made things worse, not better. “*Here,*” he wrote ironically, “*grabbed the tail of the rabbit necessary to manipulate the desired mess*”¹⁷¹.

In his opinion, the proposition according to which “rising prices recreates profits” was an assumption that still needed to be proven. “*It is true only in the hypothesis that*

¹⁶⁶ *Ibidem*, p. 131.

¹⁶⁷ *Ibidem*, p. 132.

¹⁶⁸ *Ibidem*, p. 132.

¹⁶⁹ *Ibidem*, p. 132.

¹⁷⁰ *Ibidem*, p. 132.

¹⁷¹ *Ibidem*, p. 133.

public works carried out by means of credit push up those prices which must increase to re-establish the equilibrium”¹⁷². And the prospect of an uncontrollable inflationary push in the long run could not be ruled out. Also because, in his opinion, “*the post-war social disorder was due not to the war itself but to the monetary inflation which was accompanied by it*”¹⁷³.

Einaudi sounded the alarm bell on the “possible social consequences of a new paper experiment” at the beginning of the 1930s, just ten years after the previous one. Disastrous consequences, according to his predictions. His idea was that only by stabilizing prices and avoiding an increase in inflation could the European situation perhaps be pacified.

The Keynesian recipe was a hare pie made with rabbit, to use the Einaudi metaphor. “The monetary expediency is like trying your luck in Monte Carlo. It can be fine; but it can renew the disorder of 1918-20 [...]. The swindlers, the touts, the enriched would know how to save themselves in time. The innocent, the industrialists, the farmers, the honest and sensible traders, who have so far resisted the impact of the crisis, would fall”¹⁷⁴.

In his 2016 book *Einaudi versus Keynes*, published by the Bruno Leoni Institute, the economist Francesco Forte argues that Einaudi, with his liberalism of rules, represented a “whole man” economic vision, while in Keynes macroeconomics and an abstract idea of humanity. Certainly, reread in the perspective that was opening up in Europe, headed towards a second world war, the alarmed words delivered by Einaudi at the time in the pages of Social Reform appear far-sighted.

¹⁷² *Ibidem*, p. 138.

¹⁷³ *Ibidem*, p. 141.

¹⁷⁴ *Ibidem*, p. 142.

CONCLUSION

From what we have been able to analyse, the First World War did not have devastating consequences only in the years immediately following the conflict. The way in which the victors attempted to organize the post-war period and peace, in particular with the Treaty of Versailles, sowed the seeds of tensions, crises and conflicts that continued until the first half of the 20th century. And they caused not only the rise of a series of dictatorships in Europe, but led to a second world conflagration even more terrible than the first.

The choice to illustrate the thoughts of three characters as different as John Maynard Keynes, Luigi Einaudi and Guglielmo Ferrero served to underline their ability to observe what had happened and was happening with the clarity and foresight of great thinkers. In their words, in their essays, in their positions we can see the premonition of what would happen in the West, and in particular in Europe, following solutions and agreements incapable of stabilizing the Old Continent. We were able to observe as if we had glimpsed the economic crisis, the explosion of inflation and the attrition of the democracies and values on which the old order was based before the 1915-18 war.

They did so from three different perspectives, all three useful for offering an overall vision of the problems that arose in those crucial years. They expressed radical criticism of the problems left open or created by the Treaty of Versailles, and on this diagnosis they recorded substantial agreement. Instead, they showed that they did not share the treatments that should have resolved the post-war crisis: each had a different one, also because it was influenced by the different cultural matrix and the different field of research and study. Even in this, Keynes, Einaudi and Ferrero reflect the divisions of Europe of the time and its inability to find cohesion and a common horizon. But the

analysis of each of them appears not to be contradictory but complementary to that of the others in an attempt to grasp the scope of the problems that arose after the First World War, and the difficulty of tackling them separately.

For Keynes, the focus of the research had to be identified on the “*Economic Consequences of Peace*”: it is no coincidence that the title of one of his most famous essays. It was a merciless examination of the mistakes made by the winners of the conflict, and a prophecy of a dark future. The economy represented the epicenter of his attention and concerns, and the approach of his analysis was based on this.

For Einaudi, however, an equally important aspect was the political and systemic one. Ultracritical of the conditions of a fragile peace, his gaze was turned, beyond the economy, to an inadequate structure of international organizations, which in his opinion needed to be radically changed to avoid the emergence of new conflicts.

The emphasis was placed on his denunciation of the national sovereignty of the European states of the time because it was there that Einaudi saw the hotbed of possible new conflicts: a trend that perhaps can also teach today’s Europe something. And in the regression of nationalisms to the point of taking the form of dictatorships, the reflection of Guglielmo Ferrero was exercised, who tried to delve into the principle of the legitimation of power; on the fragility of the electoral democracies of the twenties and thirties of the last century in the face of the rise of authoritarian figures.

And, just as Einaudi questioned the League of Nations as incapable of overcoming the principle of the absolute sovereignty of individual states, so Ferrero tried to emancipate Europe from nationalism by hypothesizing a Union of allied Latin countries. His concern, shared by Keynes and Einaudi, was the dual fear of war and chaos; of a crisis of values which should, at least in his view, have allowed religion to

regain a central role. And the model to imitate increasingly appeared to be that of the United States of America, although it proved impractical at that stage.

This thesis has tried to show how the analysis of personalities with different backgrounds and experiences have in common a passion for history and politics and a constant search for the common good which make them three great Europeans, capable of speaking even to those living in our era.

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