

Observations made by Luigi Einaudi on the Franco-Italian Customs Union (30 January 1949)

Caption: On 30 January 1949, Luigi Einaudi, President of the Italian Republic, considers the economic and financial implications of a customs union between Italy and France.

Source: EINAUDI, Luigi. *Lo scrittoio del presidente (1948-1955)*. [s.l.]: Luigi Einaudi Editore S.P.A., 1956. 677 p. p. 157-160.

Copyright: (c) Translation Centre Virtuel de la Connaissance sur l'Europe (CVCE)

All rights of reproduction, of public communication, of adaptation, of distribution or of dissemination via Internet, internal network or any other means are strictly reserved in all countries.

Consult the legal notice and the terms and conditions of use regarding this site.

URL:

http://www.cvce.eu/obj/observations_made_by_luigi_einaudi_on_the_franco_italian_customs_union_30_january_1949-en-5e12288f-919e-469a-94a9-1a3294b4a53f.html

Publication date: 02/12/2013

Observations made by Luigi Einaudi (30 January 1949)

The Franco-Italian Customs Union

It would seem that the meaning of the 'economic union' under discussion at the Paris negotiations is not a union in the general and full meaning of the word such as would exist in a unitary state, but rather the type of union that is brought into being in order to attain the goal of free movement of goods and people within the two territories in question.

Any doubts in that respect stem from the fact that the Franco-Italian project refers to measures (*textes*) whose adoption is said to be necessary to ensure that economic union is achieved. Such a union would necessarily require harmonisation of agricultural, industrial, social, fiscal, monetary, and customs legislation and, generally speaking, the harmonisation of any legislation having any economic importance or impact. In other words, it would appear that the economic union of two countries is something that cannot be achieved unless all such legislation is harmonised. That is tantamount to an admission that only in a centralised, unitary state with a single body of legislation can economic union exist. That idea is probably derived from the special mentality of people who have grown up in the French and Italian environments, where there is no notion of the possibility of different laws and regulations existing side by side in different regions. Is such a belief well founded? Is there any justification for the theory that economic union — and the lesser thing that is called 'customs union', which is perhaps the sole aim of the negotiations between Italy and France — genuinely render harmonisation necessary in all those areas? Is it not true that there have been customs unions in Switzerland, the United States and the former German Confederation, to name but a few, whose inception was in no way conditional on the harmonisation of any pre-existing economic legislation, or at least agricultural, industrial, social and fiscal legislation? It would appear that the free movement of goods and people can exist without any difficulty even though all the laws in those areas are different and are not harmonised with each other. With the exception of production taxes (excise duties), all the other taxes can vary enormously from one territory to another. In no way does this make it impossible to trade goods in accordance with the rule of common advantage, namely the rule of comparative costs. The fact that Smith is an industrialist who is incapable of low-cost production and is groaning under the weight of taxes, which are, by contrast, easily borne by the better-equipped and more capable Brown, in no way prevents Smith and Brown from trading with each other. However limited in intelligence Smith may be, he will always understand that it is more advantageous for him to produce just one product, the product with which he is least unsuccessful, rather than produce a bit of everything. Brown, by contrast, who can produce everything at a lower cost than Smith and is able to pay higher taxes that weigh less heavily on him than they do on Smith, will always find it advantageous to restrict his production to the products with which he is most successful. Despite the diversity in the two producers' circumstances, it will always be advantageous to both of them to trade with each other. Why can the story of Smith and Brown not be applied to the many Smiths and Browns in the two countries A and B? It is emphatically not the case that trade is conducted between countries of equal poverty or equal wealth, or between countries that are similarly equipped or similarly primitive. Equal economic conditions are not a prerequisite for international trade. There can be international trade, to the advantage of both parties, between rich countries and poor, between industrial and rural countries, etc. Is this idea of harmonising legislation in agricultural, industrial, social, fiscal and monetary fields realistic, or is it a ghost conjured up by those who fear non-existent dangers and in so doing take the shadow for the substance?

On consideration, one is drawn to the conclusion that no harmonisation is needed of any legislation, but that what is required is for an extremely small number of institutions to be amalgamated. Customs union is synonymous with the abolition of customs barriers between two countries. To make that happen, especially in today's world, the obstacles to that abolition must be removed, namely quotas and currency pegs, as well as the duties themselves. To be able to remove quotas and currency pegs it becomes necessary in turn to abolish the two units of currency rather than harmonise the two sets of currency legislation, which would be utterly meaningless. That in its turn would imply abolishing the two issuing banks and replacing them with a single issuing bank with a single unit of currency. That would also imply removing the two States' power to ask for loans from the single issuing bank, and therefore loans could be sought only from an authority that is superior to both States.

On reflection, the abolition of the two separate issuing banks would not be necessary if, as happened for a period in some countries, they were required to pay bearers on demand a certain amount of gold in exchange for notes. It would, however, be necessary, in the absence of identical legislation properly complied with in both countries, for an authority superior to both States to require the two banks, in law and in fact, to comply with the gold exchange requirement. That would *de facto* reduce the two banks to being two sections of the same institution. Since nowadays the requirement to exchange bank notes on demand is universally outmoded, the theory that two issuing banks could exist at the same time in two countries that have a customs union between them cannot be seriously considered.

Unifying the issuing institutions and making them subject to a State authority that is separate from and superior to that of the two Contracting States is therefore, on full consideration, the only *necessary and sufficient* prerequisite for abolishing the customs line between two States, where the abolition of the customs line includes the abolition of all restrictions on the movement of goods and people between those two States. Anything serving that purpose, even if it is achieved gradually, is a good thing. Anything that does not do so may be damaging. This is especially true of the harmonisation of agricultural, industrial, social and fiscal legislation. Even if such harmonisation could be achieved, it would not really change anything unless the condition discussed above, namely the unification of the issuing banks, occurs at the same time, and the people of the two countries would increasingly come to think of customs union as a flight of fancy.

It is not easy to understand the significance of the call to seek the broadest and most rational methods of employing the workforce so as to improve the standards of living of the two populations. One means of achieving that desirable result is, in fact, customs union; but if the implementation of the customs union is to be dependent on attaining something that should be the consequence of that union, the immediate question is: how can the effect be achieved before its cause is in place? If there are methods whereby we can employ the workforce rationally, etc., then they should be implemented on their own merit, independently of the customs union. It should be stressed that if there is any value in customs union, it must be as a means of attaining a higher standard of living, and nobody disputes that such an end can be achieved by other means as well.

Perhaps the wording of the call was introduced at the Italians' request, in order to support the request for France's borders to be opened to our emigrants. But if someone wants to use the same wording as a pretext to close the door in the faces of the Italians, can he not always say that such an improvement, etc., is universally accepted as being better achieved by workers' associations, ensuring that workers in one country do not suffer from competition from starving foreigners? Underlying the demand that improvements in the living standards of the working classes must come first, and only later should borders be opened to trade and people, is there not the theory that closed borders, barriers to foreign competition and self-sufficiency are, first, a means of protecting workers against unemployment and, secondly, a means of promoting improvements in their standards of living? Is it not assumed that this concept disproves the opposite theory, i.e. that closed borders, barriers and self-sufficiency are a means of impoverishing the nation, impeding improvements and so on and so forth? The impression gained from reading the instrument of Franco-Italian union is that it draws inspiration from the opinions still in common currency today in almost all the social classes, beginning with the large majority of the political class and the bureaucracy, opinions which for centuries have gone under the name of 'mercantilism'.