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*The Economic Journal*

*Il Problema delle Finanze Post-Bellica.* By LUIGI EINAUDI.  
(Milan: Fratelli Treves. 1919.)

THIS volume consists of five lectures delivered at the Università Bocconi, Milan, in March 1919, which are general elementary discussions on the taxation problems occasioned by the war, with considerations as to the possible future ways of meeting the interest charges on the Italian national debt. The comments contained on Italian legislative and administrative difficulties, both inherent and future, are the main interest.

As the lectures were delivered nearly eighteen months ago, they suffer somewhat the fate of all topical discussions, but the chief factor of war debts remains constant and indeed, in the case of Italy, has become accentuated.

Professor Einaudi, confining himself to fiscal problems and excluding currency questions, is occupied in ascertaining in what way the interest on 60 milliards of *lire* debt and the standing government expenses are to be covered. The interest charges he reckons at three milliards per annum.

The problem of taxation in Italy is clearly twofold. There is, in the first place, the system of taxation to be adopted and, secondly, the practical application necessary to secure the success of the operations. Italy is so richly endowed with sound theorists such as Prof. Einaudi that there should be no more difficulty in the future than there has been in the past in formulating sane schemes of taxation, but the real obstacle, as peeps out in the lectures on more than one occasion, lies in the task of administration. Post-war national finance can only be faced with the help of drastic taxation, such as income tax, E.P.D. and capital levies, in other words by heavy direct taxation for which the Latin countries, both by character and temperament, are little inclined. The problem of the hour in Italy is not so much the nature of the taxation to be imposed as the difficulty of collecting whatever taxes are decided upon.

It is with this difficulty in mind that in his first lecture, Prof. Einaudi has words of censure for the administrators of Italy between the years 1900 and 1912. The healthy state of the country in that period would have allowed radical reforms in the contributory system. Instead, Italy began the war with no inventory of income or capital. Such statistics as there were showed the total taxable incomes in Italy to exceed little more than a milliard a year. The figure was the ludicrous but natural result of a government with no powers or system of investigation and without

access to the books of the trading community. It has to be remembered also that Italy has no institute of chartered accountants.

The state of affairs has, however, been considerably improved by the strength and determination with which the government has tackled the question of war profits and the innovations introduced constitute what he declares to be the greatest administrative benefit that Italy has derived from the war. It is now a question of grafting the E.P.D. machinery on to the permanent fiscal system and of elaborating some method of ascertaining the pre-war wealth of individuals, without which no satisfactory way will be found of raising by direct taxation either the three milliards of annual interest charges or reducing the National Debt, which now considerably exceeds the 60 milliards estimated by the lecturer.

The lectures were delivered at the moment when the Meda project was launched. Cabinet changes caused this to be superseded by the proposed Schanzer "Financial Omnibus" of November, 1919, in turn altered by Sig. Luzzatti this year and still in abeyance pending the views of his successor.

Private wealth in Italy, Prof. Einaudi estimates, with what is now perhaps too modest an allowance for the rise in prices, at 160 milliards. A levy on capital, he maintains, would be easier in an industrial country, such as Great Britain, than in agricultural Italy. Whilst English critics assert that the reduction of the national debt might give place to other extravagances on the part of the Government, such fears, he maintains, are not warranted to the same degree in Italy. Great Britain has already covered her interest charges to a great extent by direct taxation, whereas Italy has still to find the means of meeting her liabilities. In the latter case, it is a choice of two evils, but nevertheless he pronounces neither for nor against the levy. He fears that if the levy takes the form of annual payments such sums will tempt the Government to employ the proceeds to other ends. The effect also on future saving causes him anxiety. "That which is above all important for the future is not the existing capital, but that which has to be created and which will accumulate by degrees. Existing capital does not disappear by such extraordinary taxation, houses, land and works are not destroyed. Only the proprietary title passes from certain individuals to the State, which in turn cedes the title to other private individuals who surrender their public debt certificates in exchange" (page 136).

The Italian tax collector is faced with the difficulty of bearer

bonds, which predominate to the virtual extinction of registered stock. The Schanzer scheme proposes the extermination of such bonds by heavier taxation than that imposed on inscribed holdings. Prof. Einaudi does not allude to any such method of forced extinction, and considers no other solution than the payment of interest less tax with the onus of recovery devolving on holders with small incomes. The abolition of bearer bonds, he maintains, can only be the outcome of international agreements. The disappearance of this form of certificate would certainly give greater stability to the Italian stock market and violent speculations on the approach of annual meetings, such as occurred this spring in the case of the Banca Commerciale, would be avoided.

Other suggestions for the future taxation are more constructive. Prof. Einaudi would institute special taxes on profits accruing to those firms which have the privilege of Government contracts to the exclusion of foreign rivals. The same theory he would apply to all firms enjoying trading concessions, as is already admitted in the case of the note-issuing institutions, whereby the state participates in any profits exceeding five or six per cent. The lectures were given when the fever of Consortia under Government auspices was at its height. These were formed, and to some extent are still in being, to liquidate existing supplies. Prof. Einaudi condemns them most justly as being vicious in their tendency to maintain prices and to cover up the delinquencies of the Government. Their profits also he would tax.

The only novelty in indirect taxation suggested is the excise on wine. The lecturer maintains that the industry would actually benefit by a tax paid at the source. Growers having to anticipate large sums to the Government would require large capital and would, therefore, have to be stronger financially, whilst the production of inferior wines with low alcoholic density would decline and the general quality of the output be improved. The absence of low-quality wine would stabilise prices and prevent heavy falls in years of crisis, whilst land now producing poor wine would be turned automatically to the production of grain. One is tempted to doubt whether the placing of wine production on the same basis as sugar would really be a benefit to the country: the estimated yield of 500 millions is, however, not to be despised. One further doubt is permissible, and that as to the extent to which Prof. Einaudi would have us believe that the income tax in England is avoided by the subterfuge of fictitious recipients.

There is a noteworthy misprint on page 140, where Pitt is proclaimed Prime Minister in 1912.

W. H. HASLAM