THE CAPITAL ORDER

How Economists
Invented Austerity
and Paved the
Way to Fascism

CLARA E. MATTEI

The University of Chicago Press
Chicago and London

The University of Chicago Press, Chicago 60637
The University of Chicago Press, Ltd., London

Published 2022
Printed in the United States of America

31 30 29 28 27 26 25 24 23 22   1 2 3 4 5

ISBN-13: 978-0-226-81839-9 (cloth)
ISBN-13: 978-0-226-81840-5 (e-book)
DOI: https://doi.org/10.7208/chicago/9780226818405.001.0001

Library of Congress Cataloging-in-Publication Data

Names: Mattei, Clara E., author.
Title: The capital order : how economists invented austerity and paved the way to fascism / Clara E. Mattei.
Description: Chicago : University of Chicago Press, 2022. | Includes bibliographical references and index.
Identifiers: LCCN 2022005299 | ISBN 9780226818399 (cloth) | ISBN 9780226818405 (ebook)
Subjects: LCSH: Capitalism—Great Britain. | Capitalism—Italy. | Stagnation (Economics) | Fascism—Great Britain. | Fascism—Italy.
Classification: LCC HB501 .M38 2022 | DDC 330.12/2—dc23/eng/20220214
LC record available at https://lccn.loc.gov/2022005299

♾ This paper meets the requirements of ANSI/NISO Z39.48-1992 (Permanence of Paper).

Contents

Introduction

In March 2020, during the earliest days of the COVID-19 pandemic, the Democrat governor of New York, Andrew Cuomo, announced plans to slash Medicaid spending to hospitals by $400 million as part of his state budget. It was a shocking announcement: on the threshold of a pandemic, one of the country's most high-profile politicians was informing the public that he planned to underpay hospitals caring for New York's poorest and most vulnerable. "We can't spend what we don't have," Cuomo explained with a shrug in a press conference. These cuts were expected to go deeper in the following years, with similar cuts to come for the state's public schools.[1]

In October 2019, following an announced increase in the subway fare for citizens of Santiago, Chile, citizens flooded the streets in protest—not only because of transit concerns, but in response to the cumulative public toll of fifty years of privatization, wage repression, cuts in public services, and marginalization of organized labor that had fundamentally hollowed life and society for millions of Chileans. With hundreds of thousands demonstrating in the streets, Chile's government responded with dictatorship-style martial law, including a series of deeply unsettling displays of police force that spanned weeks.[2]

On July 5, 2015, 61 percent of voters in Greece passed a referendum to oppose a bailout plan from the International Monetary Fund and the European Union that was proposed to address Greece's sovereign debt crisis. Eight days later, and in spite of the public referendum, the Greek government signed an agreement anyway, settling on a three-year bailout loan that limited how the country could spend money on its people: Greece had to impose more pension reductions, increase its consumption taxes, privatize services and industries, and implement a pay cut for the country's public employees. Two years later, the Greek government privatized the country's ten main ports and put many of its islands up for sale.[3]

It is a trope of twentieth- and twenty-first-century life that governments faced with financial shortfalls look first to the services they provide their citizens when making cuts. Instances like these are innumerable and span every country in the world. When this happens, they produce highly predictable, uniformly devastating effects on societies. Call it *the austerity effect*: the inevitable public suffering that ensues when nations and states cut public benefits in the name of economic solvency and private industry. While austerity policies may not be identified by name, they underscore the most common tropes of contemporary politics: budget cuts (especially in welfare expenditures such as public education, health care, housing, and unemployment benefits), regressive taxation, deflation, privatization, wage repression, and employment deregulation. Taken together, this suite of policies entrenches existing wealth and the primacy of the private sector, both of which tend to be held up as economic keys that will guide nations to better days.

Americans have seen these policies repeated by governments at every level. Attacks on unions have decimated workers' collective bargaining rights; minimum wages languish at poverty levels; laws allow employers to enforce "non-compete clauses" that bar certain workers from changing jobs in pursuit of better pay;[4] welfare has transformed into "workfare," i.e., government assistance contingent upon low-wage work. Most tellingly, the country's regressive tax policies enforce inequitable sharing of public expenses: a larger share of tax revenue drawn from consumption taxes, which are shared across a society, paired with exorbitant tax cuts across top income brackets—91 percent during Eisenhower's presidency (1953–1961), 37 percent as of 2021—as well as a reduction in capital gains taxes and corporate taxes. (The Trump administration lowered the latter in 2017 from 35 percent to 21 percent, a remarkable shift from the 50 percent rate of the 1970s.) While wages in the US have been stagnant for decades, now, for the first time in history, the country's richest 400 families pay a lower overall tax rate than any other income group.[5]

Austerity is not new, nor is it a product of the so-called Neoliberal Era that began in the late 1970s. Outside, perhaps, of the less than three booming decades that followed World War II, austerity has been a mainstay of modern capitalism. It has been true throughout history that where capitalism exists, crisis follows. Where austerity has proven wildly effective is in insulating capitalist hierarchies from harm during these moments of would-be social change. Austerity is capitalism's protector, popular among states[6] for its effectiveness and billed as a means of "fixing" economies by increasing their "efficiency"—short-term readjustments for long-term gains.

In his famous book *Austerity: The History of a Dangerous Idea*, the political scientist Mark Blyth shows that although austerity has not "worked" in the sense of achieving its stated goals across history (e.g., reducing debt or boosting economic growth), it has nonetheless been employed by governments over and over again. Blyth refers to this pattern of compulsive repetition as a form of madness.[7] However, if we view austerity in this book's terms—as a response not just to economic crises (e.g., contraction of output and heightened inflation), but to crises of capitalism—we can begin to see method in the madness: austerity is a vital bulwark in defense of the capitalist system.

When I refer to a crisis of capitalism, I do not mean an economic crisis—say, a slowdown in growth or an uptick in inflation. Capitalism is in crisis when its core relationship (the sale of production for profit)[8] and its two enabling pillars (private property in the means of production and wage relations between owners and workers) are contested by the public, in particular by the workers who make capitalism run. As part of these expressions of unhappiness, people have historically demanded alternative forms of social organization. Indeed, and as this book will demonstrate, austerity's primary utility over the last century has been to silence such calls and to foreclose alternatives to capitalism. Mostly austerity serves to quash public outcry and worker strikes—not, as it is often advertised, to spontaneously improve a country's economic indicators by practicing greater economic discipline.

Austerity as we know it today emerged after World War I as a method for preventing capitalism's collapse: economists in political positions used policy levers to make all classes of society more invested in private, capitalist production, even when these changes amounted to profound (if also involuntary) personal sacrifices. In the early 1920s, austerity functioned as a powerful counteroffensive to strikes and other forms of social unrest that exploded on an unprecedented scale after the war—a period traditionally, and oddly, overlooked by political and economic scholars who study austerity. The timing of austerity's invention reflects its animating motivations. Of greater importance than austerity's purported economic efficacy was its ability to guard capitalist relations of production during a time of unprecedented social organizing and public agitation from working classes.

Austerity has been so widespread in its uptake over the last century that it has become largely undetectable: the economics of austerity, with its prescribed budgetary cuts and public moderation, is largely synonymous with today's economics. This makes a critical history of austerity, especially one rendered in class terms, profoundly challenging. But to the extent that we stop perceiving austerity as a sincere toolbox for managing an economy, and when we consider its history through the lens of class, it becomes clear that austerity preserves something foundational to our capitalist society. For capitalism to work in delivering economic growth, the social relation of capital—people selling their labor power for a wage—must be uniform across a society. In other words, economic growth presupposes a certain sociopolitical order, or *capital order*. Austerity, viewed as a set of fiscal, monetary, and industrial guardrails on an economy, ensures the sanctity of these social relations. The structural limitations it imposes on spending and wages ensure that, for the vast majority of those living in a society, "work hard, save hard" is more than just an expression of toughness; it's the only path to survival.

This book examines the history of how this system came to high fashion in the twentieth century, including its most powerful expression in the postwar economies of Britain and Italy. In both cases, austerity was a means for economists in power to reimpose capital order where it had been lost.

The story begins with the events of the Great War that triggered the most severe crisis of capitalism to date—the unprecedented wartime mobilizations within European countries that shattered capitalism's shield of inevitability. For most people living in these countries during and after the war, whether they feared or hoped for it, the abolition of capitalism loomed as the imminent outcome of the war's devastations and its showcasing of state economic planning. In the words of Willi Gallacher, the British shop steward leader, "the order of industry, which previous to the war seemed destined to last forever, is now tottering in every country of the world."[9] In Italy, the threat was likewise palpable to the famed liberal economist Luigi Einaudi: "it seemed that a shoulder shove would suffice to knock the so-called capitalist regime to the ground . . . the reign of equality seemed close to ensue." The words of the bourgeois professor were juxtaposed with the enthusiasm of Palmiro Togliatti, a leading member of the *Ordine Nuovo* ("new order") labor movement: "men recoil from the old order of things, they feel the need to place themselves in a new manner, to shape their community in a new form, of forging new living relations that allow for a construction of a wholly renewed social edifice."[10]

These new voices from the intellectual Left accelerated change in social relations. *L'Ordine nuovo*, based in the industrial Italian city of Turin and led by Togliatti and his comrade Antonio Gramsci, is crucial to this story because it embodies the most explicit antagonist to capitalist practice and its intellectual justifications. It represented a break from both hierarchical relations of society and top-down knowledge production.

The collective anti-capitalist awakening was facilitated by the extraordinary governmental measures during the war to temporarily interrupt capital accumulation by the owners of private industry. In order to confront the enormities of the war production effort, the governments of all warring nations were forced to intervene in what had been, until then, the untarnished realm of the market. As governments collectivized key industries—munitions, mines, shipping, and railways—they also employed workers and regulated the cost and supply of labor. State interventionism not only allowed the Allies to win the war; it also made clear that wage relations and the privatization of production—far from being "natural"—were political choices of a class-minded society.

After the war, emboldened by the new economic precedents of the mobilization effort, workers in Europe spoke with a stronger and more radical voice, and they expressed themselves in ways beyond the ballot box. They consolidated collective power through unions, parties, guilds, and rank-and-file institutions to control production. The extent of politicization among large chunks of the population meant that their public opinion on economic questions could no longer be ignored. As the famed British economist John Maynard Keynes well observed, "even if economists and technicians knew the secret remedy, they could not apply it until they had persuaded the politicians; and the politicians, who have ears but no eyes, will not attend to the persuasion until it reverberates back to them as an echo from the great public."[11]

In a moment of unparalleled democratic upheaval all over Europe, in the midst of mounting monetary inflation and revolutionary winds coming from Russia, Bavaria, and Hungary, economic experts had to wield their greatest weapons in order to preserve the world as they thought it should exist. Austerity was their most useful tool: it functioned—and still functions—to preserve the indisputability of capitalism.

The austerity counteroffensive successfully disempowered the majority. Austere governments and their experts implemented policies that either directly (through repressive pay and employment policies) or indirectly (through restrictive monetary and fiscal policies that depressed economic activity and raised unemployment) subjugated the majority to capital—a social relation in which a majority sells their capacity to work in exchange for a wage. Austerity shifted resources from the working majority to the saver/investor minority, and in so doing enforced a public acceptance of repressive conditions in economic production. This acceptance was further entrenched by experts whose economic theories depicted capitalism as the only and best possible world.

These events of the early 1920s, including the widespread bourgeois fear of the crumbling of capitalism, were a watershed moment. The antagonism of the political and economic establishment to the will of the public, and especially their interventions to quell such revolutionary sentiments, reestablished capital order in Europe and ensured the trajectory of the political economy for the rest of the century, a trajectory that has continued to this day.

Austerity, Then and Now

Part of what makes austerity so effective as a set of policies is that it packages itself in the language of honest, hardscrabble economics. Vague sentiments such as "hard work" and "thrift" are hardly novel; they have been extolled by economists since the days of Adam Smith, David Ricardo, and Thomas Robert Malthus, and their latter-day followers who cultivated these maxims as the stuff of personal virtue and good policy. These sensibilities were also reflected in 1821 with the institution of the gold standard, a policy whereby upstanding governments demonstrated their fiscal and monetary rigor by linking their currencies to their holdings of precious metals, both domestically and in colonies.[12] A closer history of austerity shows, however, that it was in its modern form something quite different from these earlier, moral exercises. Austerity as a twentieth-century phenomenon materialized as a state-led, technocratic project in a moment of unprecedented political enfranchisement of citizens (who had gained the right to vote for the first time) and mounting demands for economic democracy. In this way, austerity must be understood for what it is and remains: an anti-democratic reaction to threats of bottom-up social change. As this book will show, its modern form cannot be divorced from the historical context in which it was born.

In post–World War I Britain and in other liberal democracies where widespread political empowerment was historically extolled, the state effectively wielded austerity as a political weapon against its own people. The British workers had fueled the nation's war effort, and in the course of the wartime mobilization became aware that socioeconomic relations were no natural givens and could be different. By imposing austerity measures after the war, the British government effectively told its working classes to return to the back of the line.

The public disgust for early austerity was its crucible: austerity was rendered more antagonistic because it had to overcome—and indeed tame—an incensed public. After World War I, with the gold standard in pieces, the newly enfranchised European "great public" was not simply going to accept austere policies, and the experts knew it. Thus, they devised austerity to conjoin two strategies: consensus and coercion.

Consensus implied a conscious effort to "awaken" the public to the truth and necessity of reforms that favored economic stabilization, even when it might hurt.[13] Recognizing that a restless public would be unlikely to make the "correct" decision regarding this greater good, experts complemented consensus with *coercion*. This took two forms. First, austerity had within it the principle of excluding the general public from economic decision-making and instead delegating such decisions to technocratic institutions—especially the central banks, whose setting of interest rates served as a hinge for public wages and unemployment. This preemption of decision-making by the expert class created a canvas for further policy decisions that propelled the installation of austerity. Second, coercion lay not only in who made economic decisions, but also in the outcome of those decisions—that is, in the very workings of austerity.

European governments and their central banks enforced the "proper" (i.e., class-appropriate) behavior on the working classes in order to rescue capital accumulation by the wealthy. The three forms of austerity policies—fiscal, monetary, and industrial—worked in unison to exert a downward pressure on wages among the rest of society. Their aim was to shift national wealth and resources toward the upper classes, who, the economic experts insisted, were the ones capable of saving and investing. Fiscal austerity comes in the form of regressive taxation and cuts to "unproductive" public expenditures, especially on social endeavors (health, education, etc.). While regressive taxation imposes thrift on the majority and exempts the saver-investor minority, budget cuts indirectly do the same: public resources are diverted from the many to the saver-investor few, in that budget cuts come with the stated priority of paying back the debt that rests in the hands of national or international creditors. Similarly, monetary austerity, meaning monetary revaluation policies (such as an increase in interest rates and reduction in money supply) directly protect creditors and increase the value of their savings. Meanwhile organized labor has its hands tied, since having less money in circulation depresses the economy and diminishes the bargaining power of the working class. Finally, industrial austerity, which takes the form of authoritarian industrial policies (layoffs of public employees, wage reductions, union- and strike-busting, etc.), further protects vertical wage relations between owners and workers, fostering wage repression in favor of the higher profit of the few. This book will study these three forms of austerity—what I call the austerity trinity—and how they at once require and advance one another. This historical inquiry, examining a moment in which capitalism was very much on the ropes, enlightens many vital connections that economists overlook when discussing austerity today.

First, austerity policies cannot be reduced to mere fiscal or monetary policies from central government institutions. Industrial policies, public and private, that create favorable conditions for profit and discipline workers are central to austerity as well. Indeed, as the book will show, our experts' fixation on debt repayment, balanced budgets, foreign exchanges, and inflation reveals a more fundamental purpose: taming class conflict, which is essential for the continued reproduction of capitalism.

Second, this inquiry clarifies that austerity is more than just economic policy; it is an amalgamation of policy and theory. Austerity's policies thrive because they sit atop a set of economic theories that inform and justify them. This book examines the threading of a certain kind of theory within policy making, including how the resulting technocracy—government controlled by technical experts—is central to protecting modern capitalism from its threats. There are no better

C8098-Mattei.indd 9 6/10/22 1:21 PM

candidates to illustrate this entanglement than the characters in the post–World War I story, who were among the most influential technocrats of the 1920s.

Technocracy and "Apolitical" Theory, Then and Now

Technocracy dominates governmental policy making on multiple fronts. One is the historical convention of economists advising people who govern. The other is epistemic, a form whereby these economists frame economics—including the economic arguments they themselves posited—as having achieved a standpoint above class interests or partisanship. Economics, economists argue, constitutes value-free truths about capitalism—natural facts of this world rather than constructed (or at least political) positions.

The technocracy that facilitated austerity's rise in the twentieth century can be attributed to the British economist Ralph G. Hawtrey, who authored the texts and memoranda that would serve as the guidelines for British austerity after World War I. As is the nature of technocracy, Hawtrey had help. Working at his side were the charismatic Sir Basil Blackett and Sir Otto Niemeyer, both powerful senior Treasury officials who closely advised the chancellor of the exchequer, Britain's minister in charge of economic and financial policies.

In Rome, the school of academic Italian economics that led the country's austerity policies was presided over by Maffeo Pantaleoni, who directed a group of economists under the Italian Fascist government that was codified in 1922 under "The Duce," Benito Mussolini. The prime minister granted Pantaleoni's pupil Alberto De Stefani exceptional powers to apply austerity in De Stefani's role as minister of finance. The Italian economists took advantage of this rare opportunity to explore the reaches of what they considered "pure economics," a school of economics-as-natural-law that aligned with austerity. They enjoyed an unprecedented advantage in governance in that they could directly implement economic models without the encumbrance of democratic procedures—and sometimes, thanks to Mussolini, with the help of tools of political oppression.

This book delves into the writings and public comments of these two sets of economic experts, men who designed austerity policies and wrangled consensus for their brute-force implementations. While their voices were central to the formulation of austerity after World War I, their role in this insidious counterrevolution has not been studied or explicated elsewhere. What their stories make clear, and what remains true today, is that in order to persist, austerity requires experts willing to speak to its virtues. That relationship remains true today, albeit with an ever-refreshed cast of technocratic figures.

After World War I, economists in Britain and Italy—both capitalist nations, but dramatically different otherwise—enjoyed unprecedented roles in shaping and implementing public policy to guide their nations' postwar reformations. In both cases, economists leaned heavily on the principles of what they thought of as "pure economics"—then an emerging paradigm, but one still foundational to today's mainstream economics, or what we sometimes refer to as the neoclassical tradition.

The "pure economics" paradigm successfully established the field as the politically "neutral" science of policies and individual behavior. By dissociating the economic process from the political one—i.e., by presenting economic theory and conceptualizing markets as free from social relations of domination—pure economics restored an illusion of consent within capitalist systems, allowing these relations of domination to masquerade instead as economic rationality. Indeed, technocracy's strength rested in this power to frame austerity's most fundamental objectives—reinstating capitalist relations of production, and subjugating the working class into accepting the inviolability of private property and wage relations—as a return to an economy's natural state.

These economists' "apolitical" theory was centered on an idealized caricature of an economic being: the rational saver. This broad-stroke characterization had a dual result: first, it created the illusion that anyone could be a rational saver, provided they worked hard enough and no matter their material conditions and endowments; and second, it discredited and devalued workers, who went from being understood as productive members of society to being seen as social liabilities based on their inability to practice virtuous economic behaviors. (Note: it was, and

C8098-Mattei.indd 11 6/10/22 1:21 PM

remains, exceedingly challenging for people to save money they don't have.) Accordingly, workers after the war lost all the agency that the theories and actions of the *Ordinovista* movement had won for them. Because through the economists' lens, the productive class in a society was not the working class, but the capitalist class—the people who could save, invest, and thus contribute to the private accumulation of capital. Economic theory was no longer a tool for critical thought and action; it was a mold for imposing passive consent and maintaining a top-down status quo.

Austerity's capacity to divert attention from systemic problems also helped foster collective passivity. Economists attributed postwar economic crises to the excesses of citizens, who were thereby delegitimized in their socioeconomic needs and expected to redeem themselves through economic sacrifices, restraint, hard work, and wage curtailment—all essential preconditions for capital accumulation and international economic competitiveness.

Austerity policies in the spirit of "pure economics" were a disaster for most people living in Britain and Italy in the 1920s. Thus, the book delves into the paradox of a doctrine that presents itself as apolitical but has as its central purpose the "taming of men," as the Italian academic and economist Umberto Ricci crudely put it in 1908. Under a veneer of apolitical science, technocrat economists were undertaking the most political action of all—bending the working classes to the wills and needs of the capital-owning classes for the enrichment of a small minority.

The story of austerity is also an origin story for the rapid ascent and awesome political power of modern economics. It is true today, but was not after World War I, that capitalism is the only show in town: mainstream economic theory flourishes because our societies rely almost entirely on the coercion of people who have no alternative but to sell their labor power to the propertied few in order to survive. (As the economist Branko Milanović notes in his 2019 book *Capitalism, Alone*, "the fact that the entire globe now operates according to the same economic principles is without historical precedent."[14]) Rather than acknowledging and studying the odd homogeneity of this reality, mainstream economics works to conceal it. Class conflict and economic domination are supplanted by a supposed harmony between individuals in which those at the top are seen as those who exhibit greater economic virtue and whose quest for profit is beneficial to all. In this way economic theory thwarts critiques of vertical relations of production, justifies capitalism, and counsels public compliance.

Capitalism's ubiquity today can make criticizing or even observing capitalism seem quaint. After all, we have internalized its teachings to the point that our values and beliefs are largely aligned with those that are functional to capital accumulation. It is all so embedded that today a majority of American workers can live paycheck to paycheck with little to no social insurance and still largely accept that their position is one they deserve; the country's wealthy, meanwhile, benefit from a seeming national allergy to any form of even mild tax reform that would shift more tax burden to the wealthy. The current landscape is quite different from the one technocrats were confronting in 1919, but the two are most certainly connected.

Indeed, even an economic expert like Keynes, usually understood as the most vocal critic of austerity,[15] in 1919 was of a very different opinion. He shared with colleagues at the British Treasury a sense of terror around the threatened breakdown of the capital order—and surprisingly enough, he also shared their austere solution to the capitalist crisis. As the 1920s progressed, Keynes's economic theory of how best to avoid crises *did* change; what *did not* change was his fundamental concern to preserve capital order—what he described as the "thin and precarious crust of civilization"[16] that required protection. This existential anxiety remains a cardinal feature of Keynesianism to this day.[17] Even though Keynes is not a central figure in this story, his intellectual bond with several of austerity's principals remains essential to fully understanding the nature and impetus of the so-called Keynesian Revolution later in the twentieth century.

Liberalism and Fascism, Then and Now

The story of austerity's counteroffensive against the upstart lower class began at two international financial conferences, first in Brussels in

1919 and then in Genoa in 1922. These two conferences constituted landmark events in the rise of the first global technocratic agenda of austerity. Their agendas found swift, direct application throughout Europe, most notably in Britain and Italy—two socioeconomic settings that were poles apart. At one end, Britain, a solid parliamentary democracy led by well-established institutions and orthodox Victorian values, was an empire whose centuries-long world economic-financial hegemony was now being contested by an ascendant United States. At the other end was Italy, an economically backward country that was reeling from fresh revolutionary surges and civil war. Italy lacked self-sufficiency and was highly dependent on foreign imports and capital. By October 1922 Mussolini's Fascism had seized Italy's reins.

This book narrates the parallel and intertwined stories of austerity's triumphs in Britain and Italy after World War I. I choose to focus on these nations because the disparities of their political-institutional realities facilitate identification of the fundamental elements of austerity and the capitalist mode of production across places and through time. Britain, the cradle of classical liberalism, and Italy, the birthplace of fascism, are unquestioningly understood to represent opposite ideological worlds. However, once austerity becomes our historical focus, the lines of division start to blur. Austerity transcends all ideological and institutional differences, barreling toward a similar goal within dissimilar countries: the necessity to rehabilitate capital accumulation in settings where capitalism has lost its innocence and been revealed in its classist tendencies.

This story also reveals how British liberalism and Italian Fascism fostered similar environments for austerity to thrive. These similarities went beyond the shared sacrifices of British and Italian citizens, or the fact that both countries' agendas of austerity were rationalized by similar economic theories. It is also evident that the original formation of Italy's Fascist dictatorship required the support of the Italian liberal elite as well as the support of the Anglo-American financial establishment, both of which Mussolini was able to secure by implementing—often with force—austerity policies. Tellingly, the years 1925 to 1928 correspond to the peak of both the Fascist regime's consolidation and of American and British financial investments in Italian government bonds. Fascist Italy's austerity economy provided these liberal countries with a profitable place to park their capital, much to their expressed satisfaction.

When it came to dealing with Mussolini and Fascist Italy, the liberal axis of Britain and the United States constructed a practical dissonance: they looked past the country's unsavory politics, which after 1922 were grounded in state-sponsored political violence, while taking advantage of the opportunities in Italy's stabilized economy. To the liberal financial establishment, a country with revolutionary fervor like Italy's required a strong state to reinstate order; that Italy veered all the way to an authoritarian state would just accelerate the subjugation of a radicalized working class to austerity. As this story demonstrates, both Fascist and liberal economists agreed on this point.

While the Italian economists' anti-democratic views were more explicit—Pantaleoni called democracy "the management of the state and its functions by the most ignorant, the most incapable" (Pantaleoni 1922, 269)—the British technocrats also recognized that, even in Britain, economic institutions required exemption from democratic control in order to proceed optimally. Indeed, the Brussels and Genoa conferences formalized central bank independence as a crucial step to this end. The famed British economist Ralph Hawtrey described the advantage of situating a central bank free from "criticism and pressure," noting that the bank could follow the precept "Never explain; never regret; never apologise" (Hawtrey 1925a, 243).

Throughout these pages an interesting theme will come to the fore: economic experts, whether Fascist or liberal, recognized that in order to secure economic freedom—i.e., the market freedom of the "virtuous" saver/entrepreneur—countries had to forgo, or at minimum marginalize, political freedoms. This was apparent especially in Italy during the country's "red years" of 1919 to 1920, when the majority of the country's workers demonstrated their unwillingness to accept a notion of economic freedom that presupposed their subordination to hierarchical relations of production. These workers fought for the liberation of the majority and espoused an understanding of economic freedom

C8098-Mattei.indd 15 6/10/22 1:21 PM

that was antithetical to that of experts, one that presupposed the overthrow of private property and wage labor in favor of shared means and democratic control of production. The fate of capitalism, for our economists, hung in the balance. A sweeping counteroffensive—one that transcended party lines—was underway.

The Italian case exposes a repressive drive that was only latent in the British case and persists today in countries across the world. While in Italy industrial austerity directly subordinated labor through the banning of strikes and unions (except Fascist unions—a contradiction in terms, seemingly), Britain's monetary austerity caused an economic downturn[18] that indirectly achieved the same ends: unprecedented unemployment (up to 17 percent of the insured laborers in 1921), which weakened workers' bargaining power and lowered wages, and an ensuing reduction in government revenues that tied the state's hands and precluded any public response to workers' needs or demands.

That the British experts were willing to tolerate such high unemployment, ostensibly in the service of controlling inflation, is part of the "madness" to which Blyth refers. However, this madness makes sense if we recognize that high unemployment functions to suppress the threat that workers' demands posed to capitalism. What the British economist A. C. Pigou called the "inescapable fact" of unemployment is that it not only killed the political enthusiasm of the working classes, but also forced workers to accept lower pay—in the postwar case of Britain, a 41 percent nominal wage drop from 1920 to 1923 that allowed for the profit rate to recover swiftly from its immediate postwar troubles.[19] In this way, it is clear that the primary advantage of the economic downturn was the unequivocal restoration of the capitalist class structure. Rather than exercising direct political and economic coercion, as Italy did, Britain relied on seemingly apolitical technocrats at the heads of its Treasury and the Bank of England, who achieved similar ends through monetary deflation and budget cuts; the structural violence of macroeconomic policy could do the same as the physical violence of Fascist militias. These dire social consequences were evident to political observers. In 1923, Labour MP Dr. Alfred Salter's words echoed through the British Parliament: "Unfortunately the question of wages

C8098-Mattei.indd 16 6/10/22 1:21 PM

has returned to the position of ten years ago with a vengeance. . . . You have even got the extraordinary spectacle of able-bodied men in full employment . . . receiving wages at such a low level that they are obliged to have recourse to the Poor Law. . . . It is a most astounding state of things."[20]

The close connection between austerity and technocracy, and the success of early efforts to build consensus around its coercive policies, remain a vivid reality today. Despite repeated economic crises, economists are still relied upon to devise the solution when a new crisis emerges, and their solutions continue to require that workers absorb the lion's share of hardship through lower wages, longer workdays, and welfare cuts.[21]

Wage Repression, Then and Now

Some economists have referred to austerity as a simple "policy mistake," a technical miscalibration that produced suppression of domestic demand and tightening of labor markets. This view dramatically underestimates the impacts of austerity, the success and legacy of which remain indelible to this day. After all, the combination of fiscal, monetary, and industrial policies in the austerity playbook have dealt a lasting blow to the working classes and their expectations for a different socioeconomic system. The rehabilitation of hierarchical wage relations—in which the majority of people cannot make their living in any other way than by selling their labor power as a commodity on the market, and by doing so, renounce their right to have a say in how this commodity is consumed by the employer who purchases it—is perhaps austerity's defining characteristic. In doing so, and as chapter 9 details, it also produces an increase in the rate of exploitation for workers and a surge in profits for owners.

In political economy, the concept of capitalist exploitation refers to the dynamic in which an employee exerts a greater amount of labor than she receives in compensation. In other words, the capitalist class appropriates a surplus value (its profits), as well as other forms of surplus value, such as rents and interest (see Foley 1986). The rate of exploi-

C8098-Mattei.indd 17 6/10/22 1:21 PM

tation can be measured by comparing the amount of national income that goes to profits (profit share) as compared to wages (wage share); another way is to compare labor productivity to wages paid. In both measures, Italy and Britain saw increasing exploitation across the 1920s. Mapping this against political events, the conclusions about austerity's effects on workers become clear: exploitation plummeted during the "red years" of 1918–1920, as nominal daily wages of workers quadrupled (Britain) or even quintupled (Italy) compared to the prewar years. This trend changed immediately with the introduction of austerity.

A century later, exploitation due to wage stagnation—what I show to be the most intractable legacy of austerity[22]—persists as the main driver of a global inequality trend in which a country like Italy (which suffers far less inequality than the United States) has seen the wealth of its richest 6 million increased by 72 percent in the last ten years. The country's poorest 6 million have had their wealth diminished by 63 percent over the same period. The official data tells that in 2018, 5 million people (8.3 percent of the Italian population) lived in absolute poverty, i.e., were deprived of the necessary means to live with dignity.[23] The numbers in 2020 worsened: 5.6 million people, 9.4 percent of the population, live in absolute poverty. In Britain the situation is no less gloomy: 30 percent of the country's children (4.1 million) lived in relative poverty in 2017–2018, and 70 percent of these children lived in working families. As of 2020, the number of poor children has increased to 4.3 million.[24]

In a 2020 macroeconomic analysis of the US economy, the economists Lance Taylor and Özlem Ömer showed that in the preceding forty years, the profit share of the nation's output rose substantially, while the labor share of that same output correspondingly went down. The relationship between owner profit and worker loss was symmetrical; one was taking from the other. An increase in exploitation was also evident, with real wages grossly lagging behind labor productivity.[25] Once the reader is acquainted with the story in this book, the inner workings of such dynamics will become familiar, and hopefully clear.

Today, as in the 1920s, the winners under austerity remain an affluent minority: the richest 1 percent of the population subsists primarily on profit-related incomes tied to existing wealth (e.g., dividends, interest). The rest of the population—those who rely on income from labor alone, or the bottom 60 percent who rely on a combination of low wages and social benefits—has lost (Taylor and Ömer 2020). It is a defeat so thorough and so striking that the median American male worker in 2019 actually earned less in real terms than what he did in 1973. Since that year, structural inequality has robbed American workers of $2.5 trillion each year, money that flowed directly into the hands of the few.[26]

Warren Buffet, the renowned investor and as of 2020 the fourth richest person on earth, was quoted in 2006 as observing: "There's class warfare, all right, but it's my class, the rich class, that's making war, and we're winning."[27] This book shows how the biggest victory of all, and the one that paved the way for all the winning that followed, was the fight that took place a century ago.

Methods and Sources

Tracing the origin story of austerity began in 2013 at the archives of the Library of the Bank of Italy and the Bank's De Stefani Archive, both located in Rome. Here I spent years studying the works of the Italian economists who would become central to my story.

The main challenge in piecing together this history was to avoid the compartmentalization of its characters' different lives—their personal, academic, and political trajectories—and to integrate and study the connections between the economists' theoretical writings, political interventions, and public commentaries. As I did so, a coherent austerity agenda—an agenda that was at once theory and practice—came into stark relief. Much of the archival material that informed this process finds its first translation in the pages of this book.

The same approach guided my research in the British National Archives, the archives of the Bank of England, and the Churchill Archives Center: uncovering and contextualizing the worldviews of the experts at the British Treasury who drove Britain's austerity movement. The study of Ralph Hawtrey's theory was long and hard: the man was prolific both in his academic publications and in the memoranda he wrote for his colleagues at the Treasury. His thoughts were often opaque. However, as I put the pieces of the puzzle together, a holistic picture of austerity emerged. As this book will detail, it was a design heeded and realized by the work of his senior colleagues, Sir Basil Blackett and Sir Otto Niemeyer. Unearthing the activities of these men from dusty Treasury files, I was riveted by the evidence of Hawtrey's persuasion of the other two, and in turn how the two bureaucrats, neither one a trained economist, came to be missionaries in campaigns to export the British austerity agenda to other countries around the globe.

To understand and to develop a chronology of the class conflicts in Britain and Italy during and after the war, I immersed myself in the journalism of the period—left, right, and center; working class and bourgeois. This included the leftist Italian newspapers *L'Avanti* and *L'Ordine nuovo*, quoted often in this book, together with their British equivalents, *The Daily Herald* and the labor pamphlets of the metallurgical shop stewards. Government archives were a crucial resource for reconstructing the voices of the British workers. Various bourgeois newspapers of the era (the *London Times,* the *Economist*, *La stampa*, *Il corriere della sera*) as well as transcripts of parliamentary debates provided a useful contrasting voice. I complemented this historical investigation with the dispatches from the British Embassy in Rome, housed within the Foreign Office files of the National Archives; these are among the most telling voices in the book.

A discomfort in telling a new history is the potential that it will be dismissed as a selective or even partisan telling. For this reason, and because I am an economist and cannot help myself, I have included a chapter at the end of the book that offers quantitative analysis to support the story I have otherwise told in archival and theoretical terms. For this penultimate chapter, chapter 9, I collected macroeconomic and financial data from the most up-to-date statistical sources to illustrate the economic changes in Britain and Italy that support my argument that austerity was, and remains, a tool of class control. If the history of the first eight chapters doesn't persuade readers, perhaps the economics of the final section will.

Part I
WAR AND CRISIS

The scale of the First World War reshaped Europe's capitalist economies. Many private industries became public ones, and governments suddenly functioned as both buyers and sellers in economies that were designed to meet basic needs at home and drive the war effort abroad. Whatever the old social order was, it appeared to be changing.

The change didn't last. With the end of the war, these same capitalist nations moved swiftly to revert their economies to their earlier states: top-down, capitalist, private. Wartime sentiments of egalitarianism were smothered; the power of organized labor was diluted. Capitalism was back.

Capitalism was more than a system of economy; it was a system of social order, too. If the war served as a brief, uncomfortable dalliance with the basic tenets of socialism—including a planned central economy and strong organized labor—then the postwar attempt to reverse all of that was a testament to the power and influence of capital over modern nations.

Capital is not, as its more recent usage suggests, mere wealth. Indeed, the accumulation of capital depends on two fundamental pillars: first, small groups or individuals own the means of production; second, they use those means for the accumulation of wealth through the hiring of wage workers. *Wage relations* are the primary social relationship in any capitalist system, and they can be observed wherever a worker sells her capacity to work to her employer in return for a wage—a relation that is called *capital*. Through this sale, the worker surrenders her agency over how her labor is used and what its products will be. For example, a person who works as a bank teller performs a set of required tasks, and for that she is paid a wage—not a share of the revenue she produces, which by design is greater than her wage. This condition is part of all types of wage-jobs in our society, from the least paid to the best paid. Most people regard it as a sort of natural order for modern societies.

This was not always the case. The capitalist system was subject to extensive political experimentation and legal formalization during the seventeenth century. By the mid-eighteenth century, capitalism had been refined to the point that its institutions could be considered *naturalized*. Private property and wage relations were no longer understood as historical institutions that evolved at the expense of other systems; they were the natural order of people and things. As part of this newly entrenched system, politics was understood as separate from the economy. Politics could evolve; the economy was self-governing, as God intended.[28]

In this view, an economy is "objective" because it is disciplined by the laws of markets, including the laws of supply and demand. In this objective realm, economic coercion is concealed because it acquires such an impersonal form: the majority of us are forced to sell ourselves on the labor market in order to survive in a society where, without money, we cannot obtain food or housing. In a capitalist society, people *depend* on the market.

Unlike in earlier class societies (i.e., slavery or feudalism), coercion under capitalism is peculiar in how impersonal it is: there is no overbearing figure to dictate the sale of our work. Whereas a serf would pay part of the product of his labor to a lord because of the lord's political clout and the threat of physical retaliation, a Starbucks employee "willingly" signs a work contract without any such personal pressure; the pressure she experiences comes from the alternative, destitution. Thus, in a capitalist society, she is inescapably bound by objective market forces, a form of coercion qualitatively different from that of precapitalist societies.

Politics, on the other hand, is the domain of states and governments, which means that *political* contestation may still occur under capitalism—but not in a way that challenges the economic system. For example, popular demands may include introducing a wealth tax or the bolstering of labor rights, but abolishing private wealth and wage labor is out of the question. The state therefore remains a neutral actor with respect to the market, and its role rests primarily in safeguarding private property and wage relations through the rule of law.

By the middle of the nineteenth century, with the establishment of the gold standard and the institutionalization of financial orthodoxy that emerged with it, capitalist class relations between owners and workers became more entrenched, and any scenario for redistributive demands in favor of the people was effectively blocked. The gold standard required states to secure a certain amount of gold in their coffers so as to be able to make good on their promise to convert the currency into gold at a fixed price. Hence, states' priority was to avoid the outflow of gold, a priority that implied tight fiscal and monetary policies. Running a trade surplus was the surest way to build up a country's gold reserves. Conversely, trade deficits led to an outflow of gold, since countries used gold to pay for their imports. Any extra public expenditure, or any easing of credit—the bases for redistributive policies—would result in gold flights and were therefore nonstarters.

A tight fiscal budget, on the other hand, could bolster trade surpluses by lowering domestic demand. And higher rates of interest (which promised higher returns on capital while deterring imports as they slowed the domestic economy) would draw gold bullion back into the country. Hence, the imperative of fiscal and monetary rigor was normalized.

Prior to the First World War, this "natural" order of things found its sturdiest practice in Britain, the capitalist empire *par excellence* for more than two hundred years, as well as in younger nation-states such as Italy. But the war's demand for domestic production quickly produced a complete subversion of such entrenched foundations—suddenly capitalism did not appear to be so natural after all. There ensued a collapse of the divide between the economic and the political that entailed the dwindling of the unchallenged status of the two pillars.

During the war, the state demolished its former boundaries of action. Faced with the choice between life or death, victory or defeat, war governments were forced into implementing economic practices that were unheard of—or better, unimaginable—until that moment. The self-regulating capacities of the market had proved inadequate for the unprecedented productive necessities of the war struggle.

As will be discussed in chapter 1, British and Italian states were compelled to take a major role as producers: key war industries were put under their control. This included not just munitions, but also strategic energy and transport sectors like coal, shipping, and railways. In this respect, the once firm boundary between private property and public property, between entrepreneurs and bureaucrats, lost its semblance of immovability. Through war collectivism, states broke the glass on the sanctity of the private organizations of production. For the first time, these states also subordinated the priority of private economic profit to that of political need. The collapse of the gold standard that followed served to facilitate these novel political priorities. With it, spaces for financial alternatives emerged that had not previously been thought of.

Meanwhile, a second fundamental boundary was also broken: the states began to heavily regulate the labor market (including facets like labor mobility, working conditions, and wages) across all key war industries, even those that it did not directly control. In doing so, the state threatened the second capitalist pillar, wage relations. In the face of these developments, workers facing lower wages and harsher discipline were shown that their burdens were the result not of impersonal market forces, but of explicit governmental decisions. The political intervention on industrial relations, a necessity of the war, exposed how relations of production could be a front for political activism and historical change.

States had disrupted their neutral positions with respect to the market, and in doing so they broke with earlier notions of the market's inviolability. Once the traditional boundary between the economic and the political faltered, the rule of private property and wage relations toppled: popular contestation of old norms emerged more than ever. In 1919 this crisis of capitalism was on, and it was unprecedented.

Most economic historians of World War I and the interwar period focus on the "economic problems" facing countries because of the monetary and financial outcomes of war: soaring inflation and mounting debt had compromised countries' creditworthiness, creating deep uncertainty and threatening capital flight. But looking deeper at these dynamics, it emerges that economic uncertainty was only a part of the problem. Part of what this book will explore is how economic uncertainty in these postwar countries had a political basis—indeed, how the economic and political crises were inseparable, with the former imposed by the latter. The postwar financial crisis was a crisis of legitimacy for capital order and its social relations.

The general public was noticing that state intervention within the economy was not a neutral act in the name of the good of the whole, but rather an authoritarian force to ensure the profit of the ruling classes. Chapter 2 explores how pressure from below pushed states to extend welfare measures in an attempt to appease their restless citizens. However, while these measures were reformist in intention, they were not so in their outcome. Indeed, they triggered further demands to fundamentally eradicate the very capitalist pillars that states set out to protect.

Put simply: the new, historic conditions of the war effort and the interwar period allowed citizens, especially those in the working class, to see that society could be different. The self-rationalizations of the system were breaking down, and with their deterioration came proposals for radical alternatives that could overcome them. Chapters 3 and 4 explore the political strikes and the movement for workers' control that reached their climaxes after the war and became central to labor's charge in both Britain and Italy. In aggregate, these workers demanded an overhaul of their economies, a replacement for the capitalist industrial system that moved toward a new social order in which associations of workers would control industries, either partially or completely. In this sense, emancipated work would replace capitalist exploitation, and public service and production *for use* would replace production *for profit*.

The popular struggles in the two countries examined here exemplified the wide-ranging courses of action: from union campaigns that successfully pierced the establishment, to the effective operation of British building guilds that produced "for need" within the capitalist market, all the way to Italian factory occupations that were led by revolutionary workers' councils.

In sum, the degree of state intervention during the war and the heightening of class antagonism that it engendered constituted a great revolutionary rupture from 1918 to 1920. It was the largest crisis in the history of capitalism, embodied in the unprecedented popular mobilization of strikes, alternative policy proposals, and alternative organizations of production. The logic of austerity can only be understood as a dramatic reaction to this landscape.

Part II

THE MEANING OF AUSTERITY

The crisis of capitalism that followed the Great War was, for some people of means, an acute and terrifying development.

Once workers stormed the stage of history with ideas for an alternative society, the defense of capitalism took on novel and more powerful forms. Guardians of capitalism went back to the drawing board to refurbish the old order, and their manufacture of austerity became their main weapon. Austerity consisted of a twofold process, at once material and ideological. Or better, it consisted of a twofold strategy—coercion and consensus.

The coercion of workers was clear in the motto of austerity that was formulated at two pivotal international financial conferences, in Brussels (1920) and in Genoa (1922): "work more, consume less." The capitalist states and their economic experts secured capital accumulation through policies that imposed the "proper" (i.e., class-appropriate) behavior on the majority of their citizens. The three forms of austerity policies—fiscal, monetary, and industrial—worked in unison to disarm the working classes and exert downward pressure on wages.

The operation of this austerity trinity and its material unfolding as a strategy for economic coercion is illustrated in the box below. This illustration stresses the mechanisms through which fiscal, monetary, and industrial austerity mutually reinforce one another. These general concepts will be studied concretely in the chapters in this part; however,

C8098-Mattei.indd 127 6/10/22 1:21 PM

this analysis may help readers with the overall mechanics of coercion under austerity.

FISCAL AUSTERITY → MONETARY AUSTERITY

Fiscal austerity takes the form of budget cuts, especially welfare cuts, and regressive taxation (i.e., tax policy that takes a greater proportion of money from people who have less of it). Both reforms allow the transfer of resources from the majority of citizens to the minority—the saving-investing classes—so as to secure property relations and greater capital formation. Meanwhile, budget cuts also curtail inflation through two main mechanisms. First, the reduction and consolidation of public debt diminishes the liquidity in the economy, since debt-holders can no longer use maturing bonds as means of payment. Second, budget cuts reduce aggregate demand: the general public has less disposable income, and the state itself is investing less. Less demand for goods and capital means that internal prices are kept down. Moreover, such stifling of aggregate demand also increases the foreign value of the currency by discouraging imports and thereby improving the balance of trade (i.e., ensuring that exports exceed imports). Indeed, the foreign value of a currency is favorable if the balance of trade of a country is favorable.

MONETARY AUSTERITY → FISCAL AUSTERITY

Monetary austerity (or monetary deflation, described above) entails a curtailment of credit in the economy, and it primarily coincides with a rise in interest rates. This so-called "dear money" policy, in which money is harder to come by, increases the cost to the government of borrowing money, and thus limits its expansionary projects. In twentieth-century history, the limit to state expenditure becomes more entrenched once the gold standard is reestablished (for Britain this occurred in 1925): in order to maintain gold parity, the avoidance of capital flight takes precedence; hence, fiscal policy has to prioritize retaining capital in its economy. It does so by minimizing government expenditure and creating a capital-friendly environment via lower taxation on capital.

INDUSTRIAL AUSTERITY → MONETARY AUSTERITY

Industrial austerity refers to an imposition of industrial peace, i.e., non-contested, hierarchical relations of production. Such "peace" is of course the basis of capital accumulation, as it secures property rights, wage relations, and monetary stability in the long run. Industrial austerity also guarantees expedient monetary deflation—which makes assets on hand more valuable. In fact, successful revaluation (i.e., an increase of the value of money) crucially requires downward price adjustments, particularly labor prices (i.e., lower wages), in order to cut the costs of production. This is because lower production costs keep commodity prices low, thus boosting international competitiveness at a moment when a country is seeking to improve its exchange rates through greater exports. Thus, lower production costs are ever more essential to compensate for a loss of competitiveness once the currency is revalued so as to not lose foreign market share. If the state has enough coercive powers, as the Italian Fascist state did, it can intervene directly to curtail nominal wages through legal action, thus securing immediate downward price adjustments and ensuring the competitiveness needed to achieve the gold standard. Of course, even in less authoritarian societies, such as Britain, restrictive labor laws may limit the legitimacy of industrial manipulations, for example through a criminalization of solidarity strikes. Industrial peace and wage repression are also important to attract capital and avoid its flight, another prerogative for gold convertibility. Low wages also decrease consumption demand, which in turn decreases imports and thus has a positive effect on the exchange rate that favors revaluation.

MONETARY AUSTERITY → INDUSTRIAL AUSTERITY

Dear money policy means that the economy will slow down because borrowing becomes costlier and investors are disincentivized. Once deflation kicks in and prices decline, pessimistic expectations regarding future profits reduce investments further. Less investment means less employment. Higher unemployment not only reduces workers' wages, it also ensures "industrial peace" by killing the political leverage and militancy of labor.

INDUSTRIAL AUSTERITY → FISCAL AUSTERITY

A weak and docile working class is one whose pressuring action for social measures, progressive taxation, and other redistributive policies is subordinated to the austere priorities of shifting resources, which favor the saver-investor classes. Unions forgo radical proposals and practices that challenge private property and are willing to engage in collaboration toward increasing the efficiency of production in the name of a national cause.

FISCAL AUSTERITY → INDUSTRIAL AUSTERITY

Budget cuts mean curtailment of public works and of public employment more generally, leading to an enlargement of the reserve army of labor (the pool of people wanting to work), which jeopardizes unions' bargaining power, depresses wages, and increases competition between workers.

The circular blueprint we have just detailed makes an important point in the story and history of austerity. Upon closer inspection, governments' austere fixations on balancing budgets and curbing inflation

C8098-Mattei.indd 129 6/10/22 1:21 PM

serve the main goal of making sure *capital* (as a social relation) is indisputable, and that its pillars of wage relations and private property remain strong. For example, the main achievement of fiscal and monetary austerity was identical to that of industrial austerity: the subjugation of the working class to the impersonal laws of the market. Indeed, all three forms of austerity served to recreate the divide between economics and politics that war collectivism had temporarily suspended. Once the state stepped down as an economic actor (and as an employer), wage relations would again be subjected to impersonal market pressures. Austerity ensured and facilitated this retreat to the norm.

Here emerges a core argument of this book: the main objective of austerity was the *depoliticization of the economic*—or, the reinstallation of a divide between politics and the economy—after the wartime political landscape had dissolved it. In practice, the reinstallation of this divide took three forms.

Depoliticization refers to the state's backing off of economic pursuits, which in turn allowed for (1) relations of production (owners versus labor) to revert to the command of impersonal market forces—while also suffocating any political contestation of such wage relations, or of private property. There was more to depoliticization, however. The following pages will show that depoliticization also meant (2) exempting economic decisions from democratic scrutiny, especially by establishing and protecting "independent" economic institutions; and (3) promoting a concept of economic theory as "objective" and "neutral" and thereby transcending class relations—the sort of omniscience that was the foundation for one of austerity's ends: building consensus.

These three conventions were mutually supportive. Cultivating a notion of economic objectivity (3), for example, first required the rehabilitation of the rule of the impersonal laws of the market (1). This, particularly in a moment of high contestation, could only be achieved through their unchecked governance (2).

Hence, austerity found its primary ally in technocracy—a belief in the power of economists as guardians of an indisputable science. Chapter 5 explores the consolidation of this powerful austerity-technocracy partnership. It introduces the reader to two international financial conferences, at Brussels (1920) and Genoa (1922), that contemporary scholars have largely disregarded. But the reality is that these two events were pivotal in securing the longevity of capitalism as a socio-economic system.

As detailed in chapter 6 and chapter 7, economic experts—in their high position within the state apparatus—constructed consensus through economic models that excluded *capital* (as a social relation of production) as a variable; instead it became a given. By embedding hierarchical social relations within their equation, these neoclassical models also replace the concept of exploitation as the basis of profit with an idea of "market freedom"; labor is no longer the central motor of the economic machine, it is a choice or calling. Meanwhile it is the *entrepreneur*'s capacity to save and invest that drives the economy (note the vernacular switch from "capitalist" to "entrepreneur," which connotes a sense of individual achievement). Indeed, these models do not envisage class conflicts between the capitalists and the workers, but rather postulate a society of individuals who can all *potentially* save (and invest) their money (that is, if they act virtuously) and whose interests harmonize with those of the other members of society. In this way, technocrats counteracted any critique regarding vertical relations of production and justified capitalism as a system that benefits society as a whole. The austerity economists conflated *the good of the whole* with the good of the capitalist class. They postulated the national interest as congruent with the interest of private capitalism. These beliefs imbue austerity today, as then.

Austerity—both in its material form as a coercive policy and in its theoretical form as a consensus-building set of theories—repudiated the workers' revolutionary wartime and postwar gains, especially those of the *Ordinovista* movement. The group's practical and theoretical alternatives were the gravest enemy to the capitalist system, an enemy that originators of the austerity doctrine were determined to defeat. In fact, and as we shall further explore in the second half of the book, austerity smashes the *Ordinovista* methodological/institutional foundations. Austerity a) re-naturalizes the capitalist pillars of private property and wage relations; b) denies the political and economic agency of workers; c) vindicates the priority of top-down economic science; and d) reasserts the divide between the economic and the political.

This austere view of the social world is also reflected in its liberal thought leaders' support of the Italian Fascist regime. Indeed, as chapter 8 investigates, the international liberal establishment was convinced that Mussolini's dictatorship was the only solution to force the austerity pill upon the "turbulent" Italian people. Fascist political methods to achieve economic success, however gruesome, could be largely tolerated thanks to their accompanying conviction that the economic and the political were two separate domains. Chapter 8 details how liberal technocrats played no minor role in consolidating Mussolini's rule.

Chapter 9 presents empirical evidence on the motives and political endgame of those who conceived austerity as policy. What was presented then and now—the rehabilitation of capital accumulation as a means to save the hungry masses—has time and again delivered on its true purpose: to facilitate permanent and structural extraction of resources from the many to the few.

Finally, chapter 10 looks at the one hundred years that follow the events narrated in this book to trace how austerity's workings have continued to shape our society and have constantly protected capitalism from potential democratic threats.