

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 states⁶ for its effectiveness and billed as a means of "fixing" economies by increasing their "efficiency"—short-term re-adjustments 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 alter-

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natives 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.

Oh this is very well put.

thinking about how the rise of the far-right & anti-trans, anti-migrant anti-democracy rhetoric goes hand in hand with austerity's neoliberal economic

that Marx quote (was it Marx? paraphrasing Marx? the less you go to, the less you enjoy etc.

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

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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. → Pandemic - changes made in

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

crisis
we were told were impossible
e.g. Everson in J

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.

key claim
for book

Austerity, Then and Now

Affect

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

-The way AI functions within this structure as an industrial policy, it's imposition on the workforce functioning to reduce bargaining power - if you can be replaced by a model trained by you.

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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.

Some of the conversational I've had with Richard about economics/politics - the wall that gets built up often this "Institutionalization of economic truth."

→ Trump admin → DOGE (gov. audit acronym) → Musk & Tniel in particular → cuts to funding, staff.

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

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 eco-

If you didn't have to work, save, invest, how would you spend your time?

conomic 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

The City - money laundering + financial concentration

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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

Israel,
Gaza \$
Trump
calling it
“a new
Pavlov”
not just
Trump,
UK
complicity.

2008

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 downturn¹⁸ 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

Oh we are here again.

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-

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 austerity²²—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 primar-

ily 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 pro-

lific 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.

Missionaries is a general word for it → Capitalism as religion, economists as priests.