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The genesis of austerity (Part 5)

Italy: Fascist economics opens new era of governance

By Elisa Barwick

In the tumult of the economic crisis after World War I, the world's banking and political elite unleashed dictatorial control to prevent any government from acting for the public good. Austerity, whether implemented by a fascist dictator or a board of technocrats at a central bank, was designed to save the economic system at the people's expense. The alternative would soon be demonstrated in the USA under the leadership of Franklin D. Roosevelt. (Parts 1-4 of this series are online.)

The Fascist economic platform

Mussolini and the Fascist movement changed their economic policy posture after faring disastrously in the November 1919 election. The party's election manifesto had somewhat catered to working people's concerns, advocating an eight-hour working day and minimum wage. Now, to attract middle-class support, the Fascists' platform was rewritten to favour the private sector. Privatisation of infrastructure and public utilities and the abolition of state monopolies instituted by recent governments took centre stage.

Mussolini declared his movement was "not republican, not socialist, not democratic, not conservative, not nationalist", but would unite citizens in a "synthesis" of all positions. In his New Year's message for 1920, he stated his determination to crush the socialists, who were prominent in ongoing labour unrest (Part 4). Mussolini emphasised "a return to the individual", words which stirred "agrarian fascists"—often led by the sons of big landowners—who feared the rise of the poor, and violently attacked socialists.

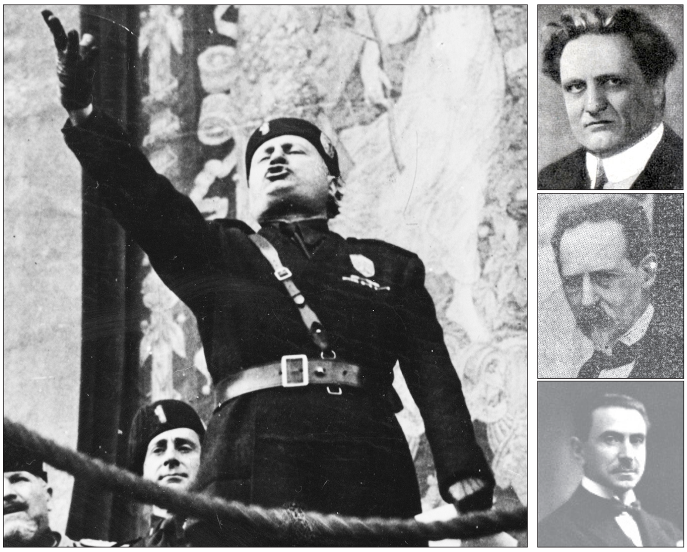
As strikes and factory occupations exploded in September 1920, with some half-million people protesting layoffs and demanding wage hikes, Mussolini compared them with Russian Bolshevism and promised to put them down, saying, "a million sheep will always be dispersed by the roar of one lion". He warmed the hearts of big industrialists by saying Italy must end the disruption in order to "produce"; but clearly the purpose would be private profit, not the general welfare.

This was the backdrop for the development of the Fascist economic policy, which would fully reflect the British Treasury agenda planted at the Brussels and, later, Genoa financial conferences (Part 2).

In his first parliamentary speech after taking power, on 19 November 1922 Mussolini laid out the bones of his policy: "The directives of domestic policies are epitomised by these words: thrift, labour, discipline. The financial problem is crucial: the budget has to be balanced as soon as possible. *Austerity regime*: spending intelligently, helping national productive forces, ending all war controls and State interferences."

Legislation passed 3 December 1922 gave the new government "full powers" to reorganise the public sector and reduce spending. The government could "act as if the budgets had been regularly discussed and voted by Parliament", economist Luigi Einaudi wrote in the London *Economist*; "never was such absolute power entrusted by a Parliament to the Executive". The government could reform or suppress services, or transfer them "to private hands".

In early 1923 Mussolini ordered Parliament that the budget be balanced "at any cost". Within the first year, state expenditure was cut by one-third. By the end of fiscal year 1925, the budget was balanced, by following the Brussels/Genoa prescriptions: regressive taxation, wage deflation, junking of



Mussolini (l.); three liberal professors who developed Fascist economic policy: Alberto De Stefani, Maffeo Pantaleoni, Umberto Ricci. Photos: Library of Congress; Wikipedia

social reforms, savage cuts to public and social sector expenditure, slashing of veteran and family payments and pensions, cutting public works, and public service layoffs. Over 65,000 public servants were fired, postal and railway services were brutally pruned, and commissions assuring fair prices and rent control were abolished. The rail administration laid off 15 per cent of its employees (27,000 workers were axed in 1923-24); instituted regressive fare increases (15 per cent for third class, 6 per cent for second class, no increase for first class!); and reduced investment in rail maintenance.[1] Post-war unemployment, old age and disability insurance was wound back; the Ministry for Labour and Social Insurance was shut down.

A massive privatisation of public services and state monopolies was conducted in 1922-25, in "the earliest case of a large-scale privatisation in a capitalist economy".[2] Royal decrees abolished state monopolies on the sale of matches and life insurance, and privatised the state-owned telephone network, the state machinery firm Ansaldo (boat, plane and train manufacturer), and motorway building and management.

As with so-called "competition policy" today, these measures hardly conformed to "free market" ideals, but they did facilitate private profiteering. Match sales were handed to the existing cartel of producers, from which new factories were barred.

1. Figures from Clara Mattei, *The Guardians of Capitalism: International Consensus and Fascist Technocratic Implementation of Austerity* (LEM Paper Series, Sant'Anna School of Advanced Studies, 2015).
2. Germa Bel (professor of economics, University of Barcelona), "The First Privatisation: Selling SOEs and Privatisation of Public Monopolies in Fascist Italy (1922-1925)", *Cambridge Journal of Economics*, 2011.

An early Italian toll road. Photo: MuseoTorino

After privatisation, insurance was controlled by an oligopoly of the two biggest companies, which had pushed for its removal from government control. Private regional monopolies took over the telephone network, which was carved up and segmented. The concessions granted to private companies to build, manage and tax motorways were the first preview of today's public-private partnerships. Italian firms received public "concessions", meaning that the state guaranteed a bond issue, provided an annual subsidy to a private company to build roads, and the company then charged tolls—the world's first toll road in the automobile era. (Next time you shell out to drive in and around Sydney, thank Mussolini for pioneering the private toll road model!) Even though private firms put up only a fraction of the capital, road traffic was rarely enough to cover costs, and most roads were nationalised in the 1930s, at public expense.

Financial crisis and dictatorship

Mussolini and his fellow Fascist MPs had entered government in 1921 in coalition with the Liberal Union, which espoused liberal economic policies. The 1920 revised Fascist program was virtually identical to liberal economic dogma, including the return of power to private enterprise; emphasis on private initiative; an end to subsidies; and budget-slashing. Mussolini began to attract the support of prominent liberal economists like Einaudi, a friend of Austrian School leader Ludwig von Mises (Part 3). Journalist, professor of "financial science" at the University of Turin, a senator since 1919, and a future President of Italy after World War II, Einaudi at this point was an enthusiast for the Fascist Party program, calling it, in *Corriere della Sera*, a "decidedly liberal economic program".

Alberto Bergamini, editor of *Giornale d'Italia*, would write in February 1923, "The principles that inspire the two parties [Fascism and the Liberal Party (*Partito Liberale Italiano*—PLI), formed October 1922] are identical, and we liberals can claim the honour of having been, so to say, pre-Fascists when it was fashionable to be democrats." Philosopher and MP Giovanni Gentile, who would go on to co-write Mussolini's Fascist manifesto, resigned from the PLI, writing to Mussolini that the Fascist Party now represented the liberal tradition. PLI Secretary Alberto Giovannini, former PM Salandra, and most other Liberals joined Mussolini's *listone*—the "big list" of Fascist-endorsed candidates for the April 1924 election.

In line with the British establishment's sponsorship of Mussolini's rise to power through "The Project" of British intelligence's Sir Samuel Hoare (Part 4), the London *Times* of 6 October 1924 welcomed the overlap between Liberalism and Fascism.

Mussolini was constrained, however, by the coalition government format. At the April 1924 election, punctuated by the increasing violence of Mussolini's Blackshirts, the Fascist Party won a majority. It was the last democratic election under his rule. Socialist parliamentarian Giacomo Matteotti, amid cries of "Go back to Russia!", demanded the election "be declared void". Eleven days later, Matteotti was assassinated by a Fascist squad in the middle of the day on his way to Parliament.

This was the moment Fascism might have been stopped. Mussolini's support network of respectable industrialists, Liberals, nationalists and businessmen began to fall apart. On the other side, regional Fascist leaders agitated for stronger action from the leader. Amid accusations that Mussolini himself was behind Matteotti's murder and rumours that the King would remove him or the military would stage a coup, opposition parties formed an anti-Fascist coalition called the Aventine Secession movement. One hundred fifty MPs from this group left the chamber in June 1924 in protest against Mussolini's rule. But there was no leadership to rally these forces with a "distinctive program".[3] Mussolini escalated. He rose in Parliament on 3 January 1925 to declare himself Fascist dictator of Italy. Opposition politicians and journalists were rounded up and jailed, and opposition parties and trade unions outlawed.

Later that year Mussolini declared, "We have buried the old liberal-democratic state…. We control the political forces, we control the moral forces, we control the economic forces. We are then in a full Fascist-corporatist state…. [N]othing outside the state and no-one against the state". The austerity imperative, too, strangled opposition: Clara Mattei notes that "many respectable sections of the Italian establishment accepted the violent and murderous nature of the Fascist movement in the name of economic stabilisation and financial rigour."

Despite the aggressive budget-cutting, a financial crisis was brewing. As in Austria (Part 3), financial reforms abolishing bank regulation and scrapping taxes on financial activity had encouraged a speculative bubble. To deal with this crisis and industrial discord, Count Giuseppe Volpi of the Venetian group of financier aristocrats (Part 4) was brought in as finance minister in July 1925. He had assisted the British organisers of the League of Nations Financial Committee (Part 1), and had ties throughout Italian business and industry, having served on the boards of 46 companies.

In November 1925 Volpi travelled to the USA, where Treasury Secretary Andrew Mellon agreed to write off some 80 per cent of Italy's war debt, followed later by a US$100 million loan from J.P. Morgan. In January 1926 Volpi secured a similar deal with Chancellor Winston Churchill in London. Central bank independence, increasingly a precondition for securing new loans, was assured by Alberto Beneduce, another architect of Mussolini's financial and industrial policy; he led the campaign for the Bank of Italy's independence—in reality, subservience to the City of London banking machine—which, in turn, was a precondition for Italy's inclusion in the London-coordinated gold standard.[4]

Volpi also had to deal with a collapse of the lira, Italy's currency. Mussolini demanded national sacrifice to save the lira, with more austerity and monetary tightening. Volpi told Parliament in December 1926: "If the national government defends the lira, it is doing so in the interest of the savers", meaning those wealthy enough to save and invest. One year later Mussolini declared he had pegged the lira to the British pound at the exchange rate required for a return to the pre-war gold standard (Part 2). Keeping the lira on gold would require "iron discipline", said Volpi, with ongoing restrictions of government spending and wages. In 1927 a new, 20 per cent wage cut was exacted.

Many of the Liberals who had allied with Mussolini departed the government. Mussolini himself took on the role of prime minister as well as minister of foreign affairs, war, the interior, the navy, aviation, and, later, corporations,

3. Franklin Hugh Adler, *Italian Industrialists from Liberalism to Fascism* (Cambridge U. Press, 1995).
4. Claudio Celani, "Britain's role in creating fascism, yesterday and today", *AAS*, 25 Jan., reviews Mimmo Franzinelli, Marco Magnani, *Alberto Beneduce: Il Finanziere di Mussolini* (Mondadori, 2009), which relates the crucial role of this professor of statistics, radical socialist, freemason, and friend of Volpi in bringing Fascist Italy's central bank and currency policy into line with British standards.

colonies and public works.[5] Beginning in April 1926, new legislation rolled out the "corporative state", instituting direct and full control over the economy *by* the state, but *for* private interests. In December 1928 Mussolini convened the Grand Council of Fascism as his new cabinet, bypassing Parliament.

The British 'Italian School': phony 'pure economics'

As we have seen, the Fascist economic platform was modelled on British liberal economics—deregulation, minimal government subsidies or concessions in the public interest, and maximum gains for private interests—since at least 1920. A small group of economists, in line with the notion that economic policy should be left to "experts", consolidated this model during Mussolini's first three years in power, 1922-25, following the British Brussels/Genoa script.

Alberto De Stefani (1879-1969) was Mussolini's Minister of Finance in 1922-25. He had been a professor of political economy at the Higher School of Commerce in Venice, a university founded in 1868 by Luigi Luzzatti, a Venetian financier and politician known for his decades-long advocacy of a world central bank to control the world's and national economies and of a supranational "one Europe" (Luzzatti would serve as PM and as Minister of the Treasury, and take part in the 1922 Genoa conference). De Stefani was elected to the Senate on the Fascist slate in 1921 and, after his dismissal as finance minister in favour of Volpi, remained on Mussolini's Grand Council of Fascism until the regime collapsed in World War II.

Maffeo Pantaleoni (1857-1924) was invited by his former student De Stefani to help formulate policy, and headed the Commission for the Revision of Balances and Reduction of Public Expenditure. He had already served as finance minister in Gabriele D'Annunzio's 1919-20 experiment of a fascist state in Fiume (Part 4). Pantaleoni was the Italian representative of the Financial Commission of the League of Nations at the 1920 Brussels conference and later a delegate to the League of Nations. Formerly in the Italian Radical Party ("leftist", civil liberties-oriented), he was named by Mussolini for election to the Senate in 1923.

Umberto Ricci (1879-1946), another liberal economics professor who had studied under Pantaleoni, became an aide to De Stefani and a Commission colleague of Pantaleoni, until severing his involvement in 1925 when dictatorship was declared (his criticism of Fascism was that it had breached free market rules).

The British press fawned over these men. The London *Times* of 2 July 1923 said that De Stefani "reminds one strongly of an Oxford don", and his department was thoroughly "soaked in the English economists" and committed "to apprehend and copy the British system of public finance." The *Economist* that year appreciated De Stefani's "great stress on the efficacy of the British Treasury in checking expenses". Both publications credited De Stefani's "courage to brave unpopularity" to his training in Pantaleoni's economics.[6]

Pantaleoni had developed a doctrine, set forth in his 1898 book *Pure Economics*, which purported to present economics as an *objective science*, akin to physics or mathematics. Cloaking brutal austerity for the population as a necessity based on supposedly scientific laws, it drew praise from the London *Times* as being "modelled on the British system". Indeed, Pantaleoni was a follower of Jeremy Bentham, philosopher and intelligence coordinator for the British Empire under PM and British East India Company operative Lord Shelburne (Part 1). His "pure economics" centred on the *hedonistic principle* (pursuit of pleasure), which Bentham had measured in his "felicific calculus"—judging an action by the quantity of pleasure it produces, as against pain. The assumption is that people act only out of self-interest as a beast does, driven by hedonistic impulses. Following Bentham's notion of "two sovereign masters, pain and pleasure", Pantaleoni in his book defined economic science as "the laws of wealth systematically deduced from the hypothesis that men are actuated exclusively by the desire to realise the fullest possible satisfaction of their wants, with the least possible individual sacrifice."

Mussolini featured on the cover of *Time* Magazine eight times.

Two related British doctrines are also associated with Pantaleoni. His work advanced the school of Marginalism in economics, promoting the standard of "marginal utility"—the quantity of satisfaction someone receives from one increment of consumption. And he proclaimed, "I am a Darwinist", meaning Social Darwinism in economics—"survival of the fittest" for people. Lecturing at the English Institute of Bankers, De Stefani insisted that principles of sound finance must be followed, or "the people are inexorably forced to pay the penalty for disobeying them".

For these economists, economics was a zero-sum game in which taking the public interest into account would crowd out the private sector: "[T]he public body is a competitor of the private entrepreneur in the use of currency and of national wealth. The miracle of the multiplication of bread and fish has been done only once", De Stefani would write in *Corriere della Sera* in 1928.[7] In a memo for the 1920 Brussels conference, Pantaleoni argued that continuing war-time government economic interventions, like subsidies for wages, would destroy capitalism because "The working classes basically don't save and spend everything in pleasures". Government should return to its proper mission, he said, "which is to furnish the general conditions for unfettered private activity".

"Pure economics", put into practice in the austerity regime under Mussolini, touted governance by "independent" technocrats and central bankers. Already at Brussels, however, Pantaleoni had anticipated that governments were unlikely to "stop their interference", because subsidies and regulation were supported by the public.

After Mussolini took power, the liberal economists concurred on the need for a strongman. Einaudi wrote in 1923 that post-war social reforms were "squandering the public revenue" and quoted Mussolini on Italy's needing "at the helm a man capable of saying no to all requests of new expenditure." Much of the population so distrusted Parliament, said Einaudi, that they cheered when its powers were suspended in 1922 in favour of dictatorial "full powers" for the government; they "would accept a Czar for the sake of getting out of chaos."

The liberal economists-turned-enthusiasts for Fascism pushed sacrifice, abstinence and frugality for the majority, as practically a religious doctrine. Ricci urged Italians to "devote ourselves to an austere existence of fatigue and savings",

5. R.J.B. Bosworth, Mussolini (Bloomsbury Academic, 2002).
6. Clara Mattei, *The Capital Order: How Economists Invented Austerity and Paved the Way to Fascism* (U. of Chicago Press, 2022).
7. Cited from Mattei, *The Capital Order.*

declaring abstinence (forgoing present pleasure to obtain a future one) a critical element of economic theory. De Stefani called for "the conscious renunciation of the rights gained by the crippled, the invalids, the soldiers. These renunciations constitute for our soul a sacred sacrifice: austerity."

The corporative state

American author James Fenimore Cooper's description of the notorious police state of the Republic of Venice, in his 1831 novel *The Bravo*, well fits the Fascist system of governance: the "substitution of a soulless corporation for an elective representation, ... in which a system of rule has … been established, that sets at naught the laws of natural justice and the rights of the citizen".

The corporative state took Fascist economic policy to a new level, embedding the austerity doctrine in a top-down system of control over decision-making and dispute-resolution for all business, industry, and other sectors of the economy. The 1932 article "Doctrine of Fascism", co-authored by Mussolini and Giovanni Gentile (author of Mussolini's 1925 manifesto *What Is Fascism?*), repudiated pacifism, glorified war and the sacrifice of life, and denied the concept of public "'economic' happiness". It defined Fascism as a merger of state and corporative power that inextricably links each citizen to the "conscious", "living organism" of the Fascist state. Venetian banker Giuseppe Volpi, a mastermind of the corporative state as both minister of finance (1925-28), president of the General Confederation of Italian Industry (*Confindustria*) and *ex officio* member of the Grand Council of Fascism, 1934-43, proclaimed in a 1937 speech how the corporations "gave final shape to the Fascist Revolution in the economic field": they enshrined a "corporative mentality … essential to make regulations effective".

At the foundation of the corporative state were "corporations" (*corporazioni*, meaning associations or guilds), supposedly representative bodies for each branch of industry. Their introduction was advanced by a 1926 law giving Fascist syndicates (trade unions) a monopoly over worker representation. Non-Fascist (e.g. socialist and Catholic) unions were taken over by the state or the syndicates, or disbanded. Minister of Justice (1925-32) Alfredo Rocco, a theorist of Fascist syndicalism, declared that "the small- and medium-sized firms are destined to disappear and give way to large industrial enterprises"—cartellisation.

Though claiming to empower all levels of industry, from workers to management and company owners, in reality the corporations exerted top-down state control over workplaces and industries. In the initiating resolution, Mussolini defined the corporation as "the instrument which under the aegis of the State disciplines the productive forces". Workers were ordered to join the corporative bodies; strikes, lockouts and demonstrations were banned. There was no recourse against reduced conditions and wages, apart from appealing to a labour court via a Fascist union. The Confederation of Fascist Corporations enforced "industrial peace", which included a 26 per cent wage drop within three years, by 1929.

Control of the labour force was consolidated with the 1927 Labour Charter (*Carta del Lavoro*), which handed all prerogatives in industry to its owners, who were to do the bidding of the state; workers' status was reduced to that of "collaborator" with the employers, with no guaranteed rights or wages. A National Council of Corporations was established, its members nominated by the Grand Council and by the 13 fascist syndicates (of "firm Fascist faith", i.e. *not representative of the population*). The lower house of parliament would be replaced in 1939 with the Chamber of Fasces and Corporations, comprising members of the corporations.

Confindustria, the employers' association founded in 1910, came under Fascist control, with Volpi its head. Minister of the National Economy (1925-28) Giuseppe Belluzzo declared: "It is the confederations and not the state who control the national economic system, and who have created a state within a state to serve private interests which are not always in harmony with the general interests of the nation."

During these years, American historian Carroll Quigley wrote in *Tragedy and Hope* that the City of London was pushing for a "single financial system on an international scale which manipulated the quantity and flow of money so that they were able to influence, if not control, governments on one side and industries on the other". The corporative approach bridged that divide, serving as a model for global direction of puppet states in the interests of private powers. This Venetian model of financier control over all aspects of the economy was supposed to prevent a Lincoln-style industrial revolution that would encourage equitable growth, but America was about to challenge that status quo again.

FDR poses the alternative

The first truth is that the liberty of a democracy is not safe if the people tolerate the growth of private power to a point where it becomes stronger than their democratic state itself. That, in its essence, is Fascism—ownership of Government by an individual, by a group, or by any other controlling private power.

Franklin D. Roosevelt, 29 April 1938

Message to Congress on Curbing Monopolies

In this address, US President Roosevelt condemned "interlocking spheres of influence over channels of investments" afforded by the banking system. "Private enterprise is ceasing to be free enterprise", he said, "and is becoming a cluster of private collectivisms: masking itself as a system of free enterprise after the American model, it is in fact becoming a concealed cartel system after the European model." He meant the post-World War I model, described in this series so far.[8]

FDR largely blamed this shift, leading to a loss of small business and genuine competition, on the banking system. He demanded regulation of financial institutions, insisting that the "power of a few", wielded over the economy, be "diffused among the many". His economic programs, such as the New Deal, went a long way to correcting this problem. FDR pushed the same policy for developing nations, bringing him into direct conflict with the City of London-centred financier power behind Mussolini.[9] In the next instalment we examine two new tentacles of that nexus—the Bank for International Settlements and the Mont Pelerin Society—which would shape the world for decades to come.

Next – Shaping the future: The financial superstate

8. Claudio Celani (Note 4) refutes the belief of some historians and many populists that FDR's economic policy was close to Mussolini's because of its active role for the state in the economy. The policy goals were radically different.

9. "Franklin Roosevelt's economic development policies vs the Anglo-American financial empire", *AAS*, 18 May 2022.