

## BOOK REVIEW/ COMPTE RENDU

**Major, Aaron, *Architects of Austerity: International Finance and the Politics of Growth*. Stanford: Stanford University Press. 2014. 254 pp., \$60.00 hardcover (9780904788342)**

**W**e may be accustomed to thinking that neoliberalism originates with the economic policies of Reagan and Thatcher in the late 70s and early 80s, but *Architects of Austerity* traces the “resiliency of austerity” back to ideas about the emerging international economy in the 1950s and 60s. As such, the book not only adds to the literature on the rise of neoliberalism, but seeks to redress scholarship on Bretton Woods (BW - the 1944 meetings organized to address governance of the international financial system) and argues that the rise of transnational monetary authorities have been an overlooked aspect of the architecture of austerity. While neoliberalism characterises a political-economic ideology centered on the desirability of free market actions and the valuing of the private sphere of ownership, the international institutional architecture supporting the monetary conception of the global economy must be included to provide a more complete picture.

In Chapter One, Major lays out the arguments: the global financial architecture comprises more than the rise of the International Monetary Fund (IMF - created at BW) and US economic and political power; it includes the development of transnational monetary authorities, of which the increased co-operation and power of the central banks has been a central feature.

Chapter Two, “Architects of Austerity,” looks at the shifts in economic governance, particularly as a consequence of the two World Wars. Where post-WWI saw increasing inter-bank co-operation, post-WWII saw the expanded power of the central banks as a core feature of the developing international financial architecture. There was a transformation in the structure of BW in the 1950s and 60s: the speed and volume of capital flows caused dilemmas that BW could not manage, resulting in the reduction of controls on these flows. Major discusses the competing political-economic visions of a post WWII international economy. John Maynard Keynes pushed for international institutions that he believed would promote embedded liberalism (the privileging of domestic objectives such as growth and employment). However, as the institutions that were created, such as the IMF, evolved, they came to serve the interests of capital flows. Although the post-WWII period sees left wing politics emerge as a social

force, with the increasing demands of the working class and labour for a fairer deal, the international monetary authorities' hegemony is established.

Chapter Three, "The Question of Growth in a Global Economy," discusses the emerging international authorities' ideas about economic "adjustments" and the pressure exerted on nations to restructure their economic policies. There is a shift in ideas about adjustments, influenced by Keynes' core idea that, as growth is a "function of aggregate demand," this demand can be "manipulated through economic policy" (55). In the context of the international financial system, the shift in ideas centers on adjustments to enforce conformity to this system. Where the IMF had been the main intergovernmental organization in the post-war years, by the late 1950s, the Organization for Economic Co-operation and Development (OECD) had taken over this role.

As an example of the OECD Economic Policy Committee's discursive power, the main culprit for price inflation in the early 1960s was conceived to be organized labour (i.e., higher wages). The role of business profits in causing inflation was largely ignored. Over time, the adjustment rules and conditions for borrowing allowed the international authorities to influence national policies, such as domestic social welfare regulations. Increasingly, governments had to orient their policies to serve the international monetary system, and its strong emphasis on balance of payments.

Chapters Four through Six discuss the respective cases of Italy, the UK, and the US, showing how the transnational authorities were able to exert disciplinary pressure on each of them. Although the OECD's Economic Policy Committee did not formalize "adjustment rules," its influence was felt through the normative framing of how domestic economies should be run in terms of balance of payments and inflation. The three cases offer examples of "adjustment in practice." The case of Italy in the 1950s and 60s demonstrates that, although there was an "opening to the left" through the center-left coalition in the early 60s, the ruling Christian Democrats conformed to the classical liberal paradigm of monetary stability, rather than supporting the domestic interests of employment, and the needs of workers and consumers.

In the UK, the Labour Party returned to power in 1964 on the basis of its ambitious plans to modernize the British economy. However, the influence and interests of the international financial community were soon felt; Labour's dependence on the Western European central banks subjected it to the normative framing of the international financial authorities, forcing it away from its domestic economic plans and social democratic objectives. Squeezed by economic stagnation and the pressure to balance its payments, the Wilson government largely abandoned its modernization plans. The balance of payments did recover, but at the expense of doubling

the rate of unemployment. Wilson's "party of modernization, of third-way social democracy, had become the party of austerity" (111).

The US, despite its post-WWII emergence as world political and economic hegemony, also succumbed to the power of the international financial authorities, particularly the OECD. While the Kennedy administration in the early 1960s aspired to revitalize a stagnant economy, it was faced with a large balance of payments deficit which subjected it to admonitions from the OECD. The solution to the stagnation was the devising of "commercial Keynesianism," which went beyond government-stimulated interventions to include tax cuts and low interest rates to generate business activity. However, low rates were anathema to the capital flows which could seek higher investment rates in Europe, invest in gold, or prompt speculative attacks on the dollar.

Significantly the innovations to try to maintain high short-term rates and low long-term rates in the context of economic stagnation set the stage for American banks to find new forms of lending: low returns in long-term credit markets prompted speculation in the short-term markets. Not only does the commercial Keynesianism solution begin to decline, but the conditions for the financialization of the US economy are emerging. While the impact of the international financial authorities on the US was not as drastic as it was on the UK, the point has been made: the power of "post war international monetary management" institutions (156) is ascendant.

Chapter Seven, "Guns, Butter and Gold," continues the American case with the Johnson administration's desire to implement the "Great Society" objectives: full employment, anti-poverty measures, and the expansion of the welfare state. For a brief period, economic dynamics worked to support these objectives. However, economic growth (and the spending incurred on the Viet Nam War) ultimately came up against pressure from the international authorities to cool the economy as changing economic dynamics put the US back into a trade deficit. As a consequence, the Great Society, like Wilson's modernization plans, was knee-capped: the postwar international monetary order was not friendly to social democratic objectives. The economic situation worsened, precipitating the end of Bretton Woods: "The United States would never see a trade surplus on manufactured good again" (186).

The final chapter, "Globalization, Coercion, and the Resiliency of Austerity," considers the entrenchment of the international monetary authorities, even after events such as 2008. The post-BW period has seen numerous financial crises, but this is the "new normal." The "finance-centric framework" has been elevated further as capital has been liberalized: the Third Basel Accord is market regulation shaped by the "neo-liberal dilemma" – while states are called on to save free markets in times of crisis, they must nevertheless craft their policies to suit the interests of finance.

Central banks, operating with great autonomy from their own national governments, mediate domestic policy by orienting it in terms of the international financial order. Financial support of governments, particularly in crisis situations, depends on private capital – “investor confidence” is salient. As such, inflation-targeting becomes a prime objective of domestic economic policy. Central banks “lead...not as representatives of the people’s will but rather as the guardians of the market” (207). The politics of finance are given ideological cover by a “technocratic language,” and monetary policy making is isolated from mass political pressure.

Major, a sociologist, invites the reader to view the economic developments he discusses in terms of how ideas shaped the emerging, liberal, global economy, rather than being reactions to it (70). This emphasis on ideas recalls the classical Marx vs. Weber debate. A spectre haunts Major’s discussion: the real occurrence or threatened possibility of currency speculation and speculative attacks is a presence that appears throughout the book. Speculative attacks on weakened state currencies are one of the things that BW and subsequent non-IMF forms of funding sought to address. Who are the speculative attackers? How did they arise? What is their relation to the developing international financial architecture - which deregulated capital flows - given that the speculators are exercising their own financial interests? While the working class is mentioned in the book, the class composition and interests of the international financial speculators warrants treatment. Nevertheless, *Architects of Austerity* offers a valuable analysis of neoliberalism as an emerging discursive formation. It also allows us to see the 2008 financial bailouts through an expanded historical and political lens. Major’s main points are confirmed by the bailouts, which were engineered by former investment bankers. Central banks may be autonomous from political influence, but clearly not from the interests of global finance.

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