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New Insights into the Political History of Economic Liberalism in the Interwar Period

edited by
David Mayer and Berthold Molden

Clara E. Mattei / Sveinn M. Jóhannesson
Austerity and the Remaking of Capitalism after the Great War: Iceland in European Context

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zeitgeschichte extra
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Editorial

In recent years, the Austrian School of Economics (ASE) has attracted renewed attention from historians interested in the evolution and wider social-political impact of economic debates. From different vantage points, scholars such as Quinn Slobodian, Janek Wassermann, Bruce Caldwell and Hansjörg Klausinger have offered new assessments of the ASE's role in the twentieth century. These range from its insertion into a "global history of neoliberalism" (Slobodian), through its long-term continuities and mutations since the nineteenth century (Wassermann), to a hitherto unseen depth in the use of biographical sources (Caldwell and Klausinger).¹

With the themed issue at hand, we are taking up this new wave of research on the ASE, particularly in the interwar period, assessing and enhancing it with unpublished findings. One important characteristic of the following essays is the interdisciplinarity of their authors: the economists Clara Mattei, Lukas Starchl, and Richard Sturn are joined by the historians Sveinn M. Jóhannesson, David Mayer, and Berthold Molden. The latter, for their part, cover different subgenres. While Jóhannesson works on economic theory, Mayer and Molden are intellectual historians specialized in addressing varying nuances of Austrian contemporary and global history. Whatever the scholarly background, all the work presented here is based on new approaches and uses previously un- or under-explored archival sources, thus allowing for a fresh and multi-faceted perspective on the history of those economic and political debates during the interwar period that aimed for a reconstitution of liberalism.

¹ Quinn Slobodian, *Globalists: the end of empire and the birth of neoliberalism* (Cambridge, Massachusetts: Harvard University Press, 2018); Janek Wasserman, *The marginal revolutionaries: How Austrian economists fought the war of ideas* (New Haven: Yale University Press, 2019); Hansjörg Klausinger, "The Austrian School of Economics and Its Global Impact," in *Global Austria: Austria's Place in Europe and the World*, edited by Günter Bischof (New Orleans: UNO-Press, 2011), 99–116; Bruce Caldwell and Hansjörg Klausinger, *Hayek: A life, 1899–1950* (Chicago: The University of Chicago Press, 2022).

The interwar period has emerged as a critical time in the history of different strands of liberalism. While it also experienced an important strengthening on the international level through the foundation of the Geneva institutions and other bodies, most followers of liberalism experienced the early 1920s as a moment of crisis and challenge: World War I and its economic consequences, the Bolshevik Revolution and subsequent revolutionary wave(s) in Europe, the rise of a number of new nation-states, the strengthening of labor, and the advent of mass democracies had upset some of the fundamentals of the previous political and economic order. As scholars such as Hagen Schulz-Forberg have shown, this shared sense of malaise among liberals in different countries led to varying attempts at re-constitution.² It was not until the early 1930s that these “new liberals” started to label themselves as “neoliberals,” and it took several decades more for the term to become known to the general public.

Meanwhile, liberalism and its reconstitution are not the only ways to make sense of the interwar period as a period that was foundational for both economic thought and economic policies. In a celebrated book from 2022, economic historian Clara Mattei proposed a historical narrative that centers around “austerity” and its historical origins in the 1920s as a response to the challenges posed by politicization and democratization in the aftermath of World War I.³ Focusing on the cases of Britain and Italy, she has brought new evidence to the ongoing debate about the causal relationship between “tight” economic and monetary policies and authoritarian politics. For this issue, Mattei has collaborated with her Icelandic colleague Sveinn Jóhannesson, an expert on the history of economic policies of this small Nordic country. Together they present a new case study of how the implementation of “austere” monetary and fiscal policies in the 1920s played out at the European periphery. In doing so, they also point to the role of transnational platforms such as the 1922 Genoa international financial conference in transmitting the new economic doctrine to other countries.

Working from Vienna, David Mayer and Berthold Molden have recently made advances into the scattered archival records of the interwar ASE, looking at the national and international networks of key figures such as Ludwig Mises and Friedrich Hayek and their strategies to lay down the tracks for a revived liberalism after the dramatic break of World War I. The analysis they present here sheds new light on different, yet complementary dimensions of the subject. Mayer delves into the 1920s socialist calculation debate between Mises, Otto Neurath and a number of Austrian socialists, a debate which played a funda-

2 Hagen Schulz-Forberg, “Embedded Early Neoliberalism: Transnational Origins of the Agenda of Liberalism Reconsidered,” in *Nine lives of neoliberalism*, edited by Dieter Plehwe, Quinn Slobodian, and Philip Mirowski (London / New York: Verso, 2020), 169–96.

3 Clara E. Mattei, *The capital order: how economists invented austerity and paved the way to fascism* (Chicago: University of Chicago Press, 2022).

mental role not only in later ASE discussions but also in the development of socialist economics. He revisits this political and theoretical controversy both in a broader context of interwar Vienna's intellectual culture and in view of the documents that can be retrieved from Mises' private archive. By reassessing the general character of the debate, Mayer highlights not only its relative "decenteredness" as an intellectual-political dispute, but also its contradictory mix of a low mutual referentiality between the participants' contributions, on the one hand, and a remarkable, though largely second-degree "social connectedness" among the participants, on the other.

Molden focusses on an application-oriented manifestation of the ASE and offers new insights into the foundation of the Austrian Institute for Business Cycle Research in 1926 by analyzing the political issues involved in the negotiations of the major stakeholders, among them the Chamber of Labor and its chief economist Benedikt Kautsky. As this essay focuses on the institutional history of that particular economic research institution, it elucidates ASE politics by directing our attention to one of its opponents, albeit in a moment of unlikely cooperation. With ample quotes from—in part recently discovered—sources, it makes the political language of Austrian interwar economic debates available and shows that by the mid-1920s both Mises, Hayek and business proponents, on the one hand, and labor representatives, on the other, had understood the importance of gathering and interpreting economic data. And yet, how ASE protagonists and organized labor went about the implementation of this shared interest emphasizes their differences as much as their temporary alliance.

The thematic arch of this issue is completed by notes from current research into Mises' private papers, which had been confiscated by the Gestapo in 1938 and later seized by the Red Army in 1945, before being taken to Moscow. They were returned to Vienna a few years ago and are currently stored at the Austrian State Archives as part of the so-called Moscow funds. To take stock of this vast material is the mission of an ongoing research project at the University of Graz. Lukas Starchl, a PhD candidate at this university's Schumpeter Center, and Richard Sturn, the center's director, report from this ongoing investigation that will certainly provide an intellectual archival map for future research. One of the project's central achievements has been to make Mises' private archive publicly available in a fully digitized online archive.⁴

While this themed issue documents our effort at bringing new sources and deeper archival granularity to the history of liberal economics in the interwar period, it also raises some methodological points. First, we wanted to broaden the scope of the history of economic ideas and to integrate various approaches and disciplinary backgrounds into an analysis of the manifold interrelations of the

4 Cf. <<https://privatarchiv-mises.uni-graz.at/en/>> (8 December 2025).

ASE (and economists more generally) with a wide array of other actors. In that, we have taken a special interest in seeing these economists as politicized intellectuals that set out to intervene in politics in a new way. The newly politicized self-image of these liberal economists—co-existing (and cross-pollinating) with their scholarly expertise in complex ways—was something they shared with the intellectual representatives of the Left. Contentiousness was part of their intellectual and political project. One of the astounding results of these shifts was that the ASE—previously known for insisting on a “theoretical” approach to economics—started to embrace practical application and statistical work.

Second, we wanted to pay more attention to the interactions between ASE economists and other intellectual schools, as well as with different institutions and realms of policy making. Their often hostile confrontation with other visions of society and economy (mostly variations of Marxism) and their dealings with allies or, generally, state and international institutions, allow for a network-oriented analysis of a key intellectual landscape of the time between the declining Europe of empires, the disruption of revolution, the sweeping takeover of fascism, and the post-World War II order.⁵ As the example of the Socialist Calculation debates highlights, the ASE can and should be understood as part of a relational history that includes the debates on socialist economics (and vice versa).

Third, these interrelations also have a spatial character. It seems to be a well-established consensus that the history of the ASE or of “neoliberalism” (a much more multi-faceted phenomenon) can only be properly understood if their transnational character and their global connections are taken into account.⁶ While we fully adhere to this vision, this themed issue, following recent debates in global history, presents highly localized studies. Be it Vienna or Reykjavik, the three studies firmly anchor their analysis in a local and urban context (although Mattei and Jóhannesson bring in the Icelandic countryside as well). During the 1920s, these two cities became, like so many other places, the stage of highly contentious conflicts regarding economic policies. Vienna, of course, is the more emblematic case that stood out, not only for the arguably most thoroughgoing historical attempt at realizing the ideas of municipal socialism, but also for its

5 Cf. Dieter Plehwe, “Neoliberal Thought Collectives: Integrating Social Science and Intellectual History,” in *The SAGE Handbook of Neoliberalism*, edited by Damien Cahill et al. (London: SAGE, 2018), 85–97. For a network-oriented analysis in the history of post-WWII neoliberalism, see: Dieter Plehwe and Katja Walther, “In the Shadows of Hayek and Friedman: Quantitative Analysis as an Exploratory Instrument in Socio-Historic Network Research,” in *Re-inventing western civilisation: transnational reconstructions of liberalism in Europe in the twentieth century*, edited by Hagen Schulz-Forberg and Niklas Olsen (Newcastle upon Tyne: Cambridge Scholars Publishing, 2014), 41–68.

6 Quinn Slobodian and Dieter Plehwe (eds.), *Market Civilizations: Neoliberals East and South* (Zone Books, 2022).

peculiar and vibrant intellectual ecosystem, manifesting, inter alia, in the famous “circles.” As the recent, widely acclaimed account by Richard Cockett forcefully argues, the ASE was a (critical) part and (opposing) parcel of the special intellectual landscape created by Red Vienna.⁷

This themed issue is the result of efforts in both research and scholarly exchange that would not have been possible without the generous and repeated funding by the Vienna Chamber of Labor (AK Wien), both through its Department for Economics and Statistics (Abteilung Wirtschaftswissenschaft and Statistik) and the Institut für Historische Sozialforschung (IHSF), which oversees the archive of the Federal Chamber of Labor and Vienna Chamber of Labor. Our particular gratitude goes to the heads of these departments, Markus Marterbauer (until February 2025) and Florian Wenninger, who have seen relevance in and granted appreciation to this research in critical intellectual history. In terms of scholarly exchange, our efforts resulted in a workshop, held on 25 January 2024 at the University of Vienna, titled “Die Österreichische Schule für Nationalökonomie und ihr Umfeld in der Zwischenkriegszeit. Aktuelle Forschung, neue Quellen, interdisziplinäre Perspektiven” (The interwar ASE in context. Current research, new sources, interdisciplinary perspectives). This themed issue reflects some of the lively discussions at this gathering.

We are particularly grateful that these contributions are published by the journal *zeitgeschichte*, the most important platform for research on Austrian contemporary history—and thus for one of the original stomping grounds of neoliberal thought. While we strive to transcend the Austrian scope of our topic, much of the work assembled here deals with this selfsame intellectual arena. We thank the editorial committee and the peer reviewers for their generous attention to our endeavor.

⁷ Richard Cockett, *Vienna: how the city of ideas created the modern world* (New Haven: Yale University Press, 2023).

Articles

Austerity and the Remaking of Capitalism after the Great War: Iceland in European Context

Introduction

The history of capitalism provides us with valuable conceptual tools to address the challenges of our current economic system and the discourse that supports it. Studying the emergence of austerity in the early 1920s offers a deep understanding of its logic today. This paper focuses on the case of Iceland, at that time a new state on the Northern European periphery, one which adopted the orthodox economic policies prescribed to states as the solution to the socio-economic turmoil following the end of the Great War. By drawing on new primary evidence—parliamentary papers, public documents, newspapers and official correspondence from Iceland—it adds context and breadth to the work of Clara Mattei regarding the post-war austerity campaigns in Italy and Britain.¹ Indeed, at the 1922 Genoa international financial conference, representatives of the Icelandic State were sitting next to their Italian and British counterparts when the notorious austerity motto was established: “Work more, consume less.” Underpinning this moralistic message addressed to all citizens of Europe was the austerity “trinity” of fiscal, monetary and industrial policies. The new financial code—which the Chair of the Finance Committee literally equated to a new “code of Justinian” for Europe²—prescribed as a set of solutions to war-induced fi-

1 Clara E. Mattei, *The Capital Order: How Economists Invented Austerity and Paved the Way to Fascism* (Chicago: Chicago University Press, 2022).

2 “The resolutions come to by the commission, which this conference is asked to adopt, constitute a financial code no less important to the world today than was the civil code of Justinian. The Institutes of Justinian have been the basis for the jurisprudence of not merely a large part of Europe, but of the world itself. Here at Genoa there have been assembled experts in finance and economics, each known in his own country as the leading authority upon the subjects with which we are dealing, and their combined wisdom [...] has resulted in agreement upon a series of resolutions which will be a guide, and I hope a code, to be followed and observed in the same way as the laws due to the learning of Justinian.” Words of the President of the Genoa Commission on Finance, Laming Worthington Evans, the British Secretary of State for War. Quoted from: Mattei, *The Capital Order*, 133.

nancial crises the privatization of public assets, cuts in social expenditures, taxing workers and abolishing capital levies, raising interest rates, and curbing union power.

As in Italy and Britain, this austerity code was embraced in Iceland not just as a technical solution to war-induced inflation, currency depreciation and public indebtedness. Under the leadership of Jón Þorláksson, the so-called Austerity Alliance (*Sparnaðarbandalagið*) adopted it as a political tool aimed at quelling the social unrest and popular demands for a more democratic economic order that arose in the wake of the war. Looking to the international financial conferences in Brussels in 1920 and Genoa in 1922, Þorláksson refashioned himself as an economic expert, imbuing technocratic austerity policies with the aim of suppressing class struggle and alternative societal structures that challenged the capitalist order. He sought to anchor Iceland within the emerging post-war financial order by aligning the country with Britain and the Scandinavian states in a policy of “ruthless deflation,” thus restoring the gold standard at pre-war parity.³ This paper aims to show how the Austerity Alliance’s (renamed in 1924 as the Conservative Party, *Íhaldsflokkurinn*) push for central bank independence and its theoretical underpinnings—including the expert management of business cycles within “the economy”—must be understood within the broader context of austerity-regulated capitalism. This independence played a crucial role in achieving the Alliance’s primary objective: insulating economic decisions from democratic participation.

Wartime Crisis and Popular Resistance to Capital

While far away from the battlefields—Iceland, like its Danish mother country, declared neutrality—Icelandic politics, government, and economic life were transformed by the Great War. At the beginning of the war, Iceland was still a province of Denmark, albeit with substantial self-government. Political parties had taken shape around the question of how to order the relationship of Iceland to the mother country in terms of nationalism, rather than how to order Icelandic society internally. These parties were more akin to small parliamentary groupings than mass political movements. Suffrage was confined to approximately

3 Þorláksson’s adoption of international economic ideas and austerity policies, and their implementation in Iceland, has not been studied before. For main works on Þorláksson, see Hannes H. Gissurarason, *Jón Þorláksson, forsætisráðherra* [Jón Þorláksson, Prime Minister] (Kópavogur: Almenna bókafélagið, 1992); Gísli Blöndal, “Þróun viðhorfa í íslenskri fjármálastjórn,” [Evolution of Perspectives in Icelandic Fiscal Management] *Fjármálatíðindi* 2:12 (1965), 101–110.

15 percent of the population, the electorate being constituted only by men of property.⁴

As in pre-war Britain and Italy, the government exercised a strictly limited role in Icelandic life. Budgets were routinely balanced and fiscal expenditure played little role in economic governance. Social expenditure barely existed. Similarly, the currency was pegged to the Danish krona, subject to the Danish central bank and thus to the gold standard. The bank of issue for the Icelandic krona, *Íslandsbanki*, was a private bank owned by Danish and Norwegian financiers. The working class had grown substantially in the two decades preceding the war, in conjunction with the rapid mechanization of fisheries in urban settlements. The first unions took shape at the end of the nineteenth century, with membership rapidly increasing in the initial decades of the twentieth. Until the 1910s, however, these unions operated more as mutual aid societies than instruments of class struggle.⁵

All of these developments were subject to profound changes in the course of the war and the immediate post-war period. By 1915, suffrage had been extended to women, urban and agricultural workers, as well as domestic servants, albeit with limitations. The electorate expanded by a factor of three to 45 percent of the population, subject to time-restricted age limitations (initially, the voting age for women was 40), thus far beyond the ranks of propertied men. Iceland became a sovereign state in 1918. As the question over the relationship to Denmark revolved, the doors were open for a new kind of politics explicitly centered on class-based identities. The new Icelandic Confederation of Labor, founded in 1916, created a working-class political party (*Alþýðuflokkurinn*). At the same time, unions began engaging in strike action to negotiate wages and conditions of work. Similarly, building on a pre-existing cooperative movement, farmers organized themselves into a political party, the Progressive Party (*Framsóknarflokkurinn*) in 1916.⁶ If the workers' party underscored an ongoing war between "the rich and the destitute"—which was supposed to end in "the collectivization of the means of production"—the idea adopted by both

4 For an overview, see Helgi Skúli Kjartansson, *Ísland á 20.öld* [Iceland in the 20th Century] (Reykjavík: Sögufélag, 2008), 88–93.

5 Magnús S. Magnússon, *Iceland in Transition: Labour and Socio-Economic Change before 1940* (Lund: Lund University Press, 1985), 102–105; Guðmundur Jónsson, "Transformation of the Icelandic Economy: Industrialization and Economic Growth, 1870–1950," in *Exploring Economic Growth: Essays in Measurement and Analysis*, eds. S. Heikkinen and J.L. von Zanden (Amsterdam: Aksant, 2004), 131–165; Þorleifur Friðriksson, *Við brún nýs dags: Saga Verkamannafélagsins Dagsbrúnar 1906–1930* [History of Labor Union Dagsbrún] (Reykjavík: Efling stéttarfélag og Sagnfræðistofnun HÍ, 2007).

6 Sumarliði R. Ísleifsson, *Í samtök. Saga Alþýðusamband Íslands I* [Organized: History of the Icelandic Confederation of Labor] (Reykjavík: Forlagið, 2013), 51–52.

parties was that together they constituted “a single class of working and educated men.”⁷

The new popular parties, mobilized to advance the interest of the “working people,” cooperated informally against a common enemy—the propertied class. The two parties were elected to parliament for the first time in 1916, although the workers’ party only got a single representative, suffering from an electoral system that gave disproportional influence to rural voters, and thus, the farmers’ party. While not all of these changes can be traced directly to the effects of the war, we can safely state that by its end the foundations had been laid for modern mass politics.⁸

The popular parties were energized by the transformation of the role of the state in Icelandic economic life during the war. As European 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. In Italy and Britain, governments were forced to give up the ideology of laissez-faire due to the blatant ineffectiveness of profit-based private investment for wartime-production: while these countries suffered supply shortages and inflation, private businesses diverted resources to the more profitable business lanes of the moment—luxury goods and exports.⁹

Even if not a belligerent country, Iceland had to deal with the ripple effects of the Great War, especially with the disruption of international trade that had caused a shortage of imports and impeded exports. Despite not spending on ammunition or military mobilization, the share of public expenditures as a part of GDP rose from eight percent in 1913 to 15 percent in 1917. The government took on a comprehensive role in coordinating production and trade, including price monitoring, price controls and subsidies in combatting war-induced scarcity, inflation and unemployment. Commentators reported that there was a

7 “Stefnuskrá íslenzkra jafnaðarmanna,” *Dagsbrún* 17 July 1915. See also Kristjánsdóttir, *Nýtt fólk*, 91–92. All translations from Icelandic are by the authors.

8 Friðriksson, *Við brún nýs dags*; Ragnheiður Kristjánsdóttir, *Nýtt fólk: Þjóðerni og verkalýðs stjórnmál* [New People: Nationality and Labor Politics] (Reykjavík: Háskólaútgáfan, 2008), 32–67; Kjartansson, *Ísland á 20.öld*, 87; Jón Gunnar Grjetarsson, “Upphaf og þróun stéttskipts samfélags á Íslandi,” [The Beginning and Evolution of Class-Based Society in Iceland] in eds. Guðmundur Hálfðanarson and Svanur Kristjánsson, *Íslensk þjóðfélagsþróun 1880–1990* [Icelandic Societal Development] (Reykjavík: Háskólaútgáfan, 1993), 215–264.

9 For the specifics of these developments in Britain and Italy, see chapter 1 of Mattei, *The Capital Order*.

new governing committee for every aspect of economic life.¹⁰ The government promoted private investment, especially in the fisheries, and significantly expanded public spending on infrastructure. It backed loans taken by municipalities. It explored and developed coal mines. The government also assumed welfare functions. Since no one was sent off to the front, there was no shortage of labor force, as was the case in many of the belligerent powers. At the same time, the export industries, in which most of the working class were employed, suffered from significant fluctuations in demand, as shipping on the oceans became difficult or impossible due to the war. Unemployment ensued, and the state stepped in to guarantee work, an altogether new development.¹¹

The government went as far as taking over private industries to meet basic necessities during the war. Like other countries, the Icelandic state had embarked on a process that deeply altered the line between government and the economy and challenged the private organization of economic life. Most notably, the government took over international and domestic shipping and trade under the newly founded State Trading Organization (*Landsverslun*). Given its small size and extreme climate, Iceland was one of the most import-dependent countries in Europe. Yet Iceland did not have a national fleet of vessels, with both international and domestic shipping being in the hands of foreign corporations. Without railways or navigable roads, these corporations also serviced domestic trade and distribution through coastal shipping. Once the war began to disrupt external shipping and trade, the government purchased a small shipping fleet and leased other vessels to deliver products to, from, and within the country. As the war progressed, the government took more robust control of the importing, distributing and rationing of raw material commodities and foodstuffs from oil to wheat to coffee. It became the predominant importer, holding a monopoly on key imports such as oil, coal, cereals and sugar. The *Landsverslun*, which, by 1917, was bypassing the private merchants and selling its imports directly to the public, ranked among the largest enterprises in the country and was the most important state corporation in Iceland up to that point.¹²

State interventionism was both an uncharted territory for the nascent Icelandic state and a costly enterprise, placing a major strain on the treasury, and

10 Guðmundur Jónsson, “Baráttan um Landsverslun, 1914–1927,” [The Struggle over Landsverslun] in ed. Heimir Þorleifsson, *Landshagir: Þættir út íslenzkri atvinnusögu* [Chapters from Icelandic Industrial History] (Reykjavík: Landsbanki Íslands, 1986), 115–138.

11 Guðmundur Jónsson, “The State and the Icelandic Economy, 1870–1930” (PhD dissertation, London School of Economic and Political Science, 1992); Guðmundur Þ. Bjarnason, *Stríðið mikla 1914–1918: Þegar siðmenningin fór til fjandans* [The Great War 1914–1918: When Civilization Died] (Reykjavík: Mál og menning, 2016), 412.

12 Guðmundur Jónsson, “Baráttan um Landsverslun, 1914–1927,” 115–138.

contributing to deficits.¹³ Like most countries, financing was facilitated by the suspension of the gold standard in 1914. This process had enormous political consequences. When coupled with full sovereignty, granted by Denmark in 1918, the Icelandic government was for the first time responsible for monetary policy. Financial techniques such as loan-financed investment and expansionary credit policies became the order of the day. *Íslandsbanki*, the private bank of issue, printed money in great amounts, which was funnelled most notably to corporations in fisheries. Private business, it was claimed, could draw on the bank as they pleased. As a result, the parties representing workers and farmers turned strongly against the bank, demanding that new central banking functions—assumed by Iceland after 1918 as a new sovereign state—be transferred to the state-owned commercial bank, the *Landsbanki*.¹⁴ This aided in challenging the common-sense acceptance that credit depended on market rates and the vagaries of international trade. People started demanding that it instead be responsive to social needs.

Combined with developments in Europe—where governments assumed new functions, and workers organized to achieve increased rights and freedoms—these changes in Iceland helped expand the horizon of what had been previously deemed possible. The redrawing of the line between the state and society did not initially come at the expense of the merchant and capitalist elites. In fact, they were closely involved in expanding state power to meet the exigencies of the war. Even the *Landsverslun* began as a collaborative effort between merchants and the government, the former selling the imports provided by the state. In fact, the government even asked the association of merchants in Reykjavík to create a proper institution designed to facilitate their collaboration.¹⁵ By 1917, however, the popular movements of workers and farmers began to seize on these changes to articulate new visions for the post-war era. Taken together, they represented a fundamental challenge to the development of market capitalism in Iceland. The movements of farmers and workers envisioned governing the country together, organizing the economy into state-run enterprises and cooperatives.¹⁶ As the

13 Jónsson, “The State and the Icelandic Economy,” 240–243; “Transformation of the Icelandic Economy: Industrialization and Economic Growth, 1870–1950,” 131–165.

14 Jóhannes Nordal, “Mótun peningakerfis fyrir og eftir 1930” [Shaping of the Monetary System Before and After 1930], in Jónas H. Haralz ed., *Frá kreppu til viðreisnar. Ættir um hagstjórn á Íslandi á árunum 1930 til 1990* [From Depression to Restoration: On Icelandic Economic Governance from 1930 to 1990] (Reykjavík: Hið íslenska bókmenntafélag, 2002), 41–80.

15 Ingólfur V. Gíslason, *Enter the Bourgeoisie: Aspects of the formation and organization of Icelandic employers, 1894–1934* (Lund: Lund University, 1990), 145.

16 Ísleifsson, *Í samtök. Saga Alþýðusamband Íslands*, 50–51; Ragnheiður Kristjánsdóttir, “Rússnesk bylting á Íslandi? Um innflutning kommúnismans, jarðveginn og pólitískt þýðingastarf” [Russian Revolution in Iceland? On the Importation of Communism and Its Political Reception] *Ritið* 3 (2017), 47–67; Friðriksson, *Við brún nýs dags*.

manifesto of the workers' party stated in 1920, the government should "assume a monopoly on the import and sale of necessities such as oil, coal, salt, tobacco" and "control of the fishery industry, international and domestic shipping, large-scale industry, mining and other related industries."¹⁷ Citing Karl Marx, Ólafur Friðriksson, the author of the charter of the Icelandic Confederation of Labor, explained how ownership of "the means of production" would be converted from "private property to public property." Public property was defined broadly as including "the ownership of the state, municipalities, and cooperatives."¹⁸ As Einar Olgeirsson, another labour movement activist and a future leader of the Icelandic Communist Party, stated, the means of production would be transferred from the wealthy "to a single class [namely that] of working men."¹⁹

Entering parliament in 1916, the political representatives of farmers and workers began influencing policy as early as in 1917. With the informal support of the only parliamentarian of the working-class party, the farmers' party participated in government for the first time. The farmers' party was actually able to seize central decision-making power, assuming charge of economic affairs, which included the *Landsverslun*. It was able to steer the government to substantially increase spending on public goods. After the war ended, expenditures on health, education and services as well as infrastructure and capital investment were substantially increased. From 1919 to 1920, public investment rose by 65% in real terms. Provisions for unemployment and hardship relief, loans to municipalities, investment in public works and infrastructure, subsidies for coal and other basic necessities, price caps for basic necessities, and funding for agriculture investment, were all part of the legislative victories of the farmers' party.²⁰

The stakes involved in radically transforming the foundational pillars of the Icelandic economy were condensed in the struggle around the post-war role of the *Landsverslun*. While the conservative elite saw this institution as a simple war measure and wanted to roll it back, the farmers' and workers' movements fought to expand the *Landsverslun's* functions: not only was it supposed to regulate international commerce and ensure the supply of basic necessities, but it should function as a platform to guarantee a complete overhaul of the capitalist social relations of production. "Collectivization" based on "popular participation" was understood as an important element of a postwar order based on workers'

17 "Stefnuskrá Alþýðuflokksins," [Manifesto of the Social Democratic Party] *Alþýðublaðið* 21 June 1920, 1–2.

18 "Stefnuskrá íslenskra jafnaðarmanna," [Manifesto of Icelandic Social Democrats] *Dagsbrún* 17 July 1915, 7–8.

19 Einar Olgeirsson quoted in Kristjánsdóttir, *Nýtt fólk*, 92. See also Skafti Ingimarsson, *Nú blakta rauðir fáanar: Saga kommúnista og sósíalístahreyfingarinnar á Íslandi, 1918–1968* (Reykjavík: Sögufélag, 2024).

20 Jónsson, "The State and the Icelandic Economy," 87.

control of the government and the municipalities and the self-management of the cooperatives.²¹ When the right-wing forces portrayed this struggle as an attempt to establish a permanent monopoly by the state and the cooperative movement on all imports and exports, thus effectively abolishing free market operations, they were not exaggerating. The basis of capitalism was no longer politically secure.²²

Despite setbacks and several attempts to abolish it—one of which led to the collapse of a government—by 1922 the *Landsverslun* was gaining momentum again. Backed by a clear majority in parliament and overwhelming popular support, it scored a major victory over US-based Standard Oil, which had monopolized the import of oil to Iceland before the war. If, in 1918, Standard Oil still had been able, with considerable help from the US government, to force its Icelandic counterpart to abolish the wartime monopoly on oil imports, by 1922, the Icelandic parliament successfully legislated an oil monopoly on behalf of the *Landsverslun* to force Standard Oil out, resulting in significantly lower prices. *Landsverslun* was taking on a permanent shape, cementing the post-war impulse to break away from economic orthodoxy and market-based capitalism.²³

As the merchants attempted in vain to abolish the *Landsverslun*, fishery owners embarked on a campaign to implement nominal and real terms pay cuts after the war. While employers had some initial success, most unions rallied to resist this attempt to force down their wages. These mobilizations effectively triggered a strike wave, the first direct confrontation of this kind in Iceland, culminating in violent clashes termed *Blöndahlsslagurinn*. At the same time, the workers' party scored significant victories in parliament, most notably securing the first regulation of the working conditions. For instance, fishermen working on trawlers were guaranteed hours of rest. All these social battles were occurring against the backdrop of the spectre of the Russian Revolution, the impact of which had become fully visible in Iceland by 1921, when participants from the Icelandic Confederation of Labor and the workers' party returned from the 3rd World Congress of the Comintern and began agitating for more radical policies within the labor movement and the workers' party.²⁴ Taken together, the movements of farmers and workers saw these as genuine steps towards creating

21 “Stefnuskrá íslenzkra jafnaðarmanna,” *Dagsbrún* 17 July 1915, 7–8.

22 Guðjón Friðriksson. *Með sverðið í annarri hendi og plóginn í hinni, saga Jónasar Jónssonar frá Hriflu I* [With the Sword and Plough, Biography of Jónas Jónsson from Hrifla] (Reykjavík: Íðunn, 1991); Jónsson, “The State and the Icelandic Economy,” 82–90.

23 Jónsson, “Baráttan um Landsverzlun,” 115–138.

24 Ragnheiður Kristjánsdóttir, “Rússnesk bylting á Íslandi? Um innflutning kommúnismans, jarðveginn og pólitískt þýðingastarf,” *Ritið* 3 (2017), 47–67; Skafti Ingimarsson, *Nú blakta rauðir fáanar: Saga kommúnista- og sósíalístahreyfingarinnar á Íslandi 1918–1969* [History of the Communist and Socialist Movement in Iceland 1918–1969] (Sögufélag: Reykjavík 2024), 45.

an alternative economy centred on the socialization of trade and production through public ownership and cooperatives.²⁵

The Austerity Counteroffensive

To counter this wave of revolutionary change, in the fall of 1923, the leaders of the right-wing factions in parliament created the Austerity Alliance (*Sparnaðarbandalagið*). Its main architect was Jón Þorláksson, a formally educated engineer and previously the Icelandic state's Chief Civil Engineer in charge of transportation improvements, who had entered politics in 1921. Þorláksson belonged to the merchant elite in Reykjavik and was closely connected to leading capitalists in banking, fisheries, insurance and shipping. He soon became the leader of the right-wing factions that had been dispersed into various party formations on the basis of the question over Iceland's relationship to Denmark. Þorláksson brought these varying factions into an alliance to respond to the threats emanating from the popular movements. He was critical of the first years of mass political participation and held the "whimsical attitude of voters" in favor of "ever-increasing public spending" responsible for government deficits.²⁶ Under his leadership, in 1924, the Austerity Alliance became the Conservative Party, and then the Independence Party (*Sjálfstæðisflokkurinn*) in 1932, which remained the largest political party in Iceland until December 2024.²⁷ Þorláksson and the Conservative Party formed a government in the early spring of 1924 aiming to implement what he called a "counteroffensive" against the spending proposals of the workers' and farmers' parties. Despite an electoral system that disadvantaged workers in urban areas, the Conservatives never achieved a majority in elections, only achieving a majority for government through alliances with individuals from other party factions. As Minister of Finance from 1924 to 1926, and then as Prime Minister, Þorláksson explicitly challenged class-based visions of politics. As he saw it, class was not a legitimate basis for political organization. Rather, politics should be based on individuals and their families, whose interests were supposed to harmonize with other members of society as long as the government did not interfere.²⁸

In economic terms, austerity was the main instrument of this counteroffensive. In crafting the agenda, Þorláksson drew on the post-war toolbox of economic governance assembled and codified at the international financial con-

25 Þorleifur Friðriksson, *Við brún nýs dags*, 331.

26 Jón Þorláksson, "Fjárstjórn á Íslandi, 1874–1922," [Financial Management, 1874–1922] *Morgunblaðið* 14 February 1924, 2.

27 For a biography see Gissuarason, *Jón Þorláksson, forsætisráðherra*.

28 Jón Þorláksson, "Íhaldsstefnan" [Conservatism], *Eimreiðin* 32:1 (1926), 1–19.

ferences held under the auspices of the League of Nations in Brussels in 1920 and Genoa in 1922. As Mattei has illustrated, these meetings led to the codification and diffusion of an international consensus for austerity and orthodox economic statecraft as a solution to the international financial crisis following the Great War in a way that prefigured the post-1970s adjustment programmes of international organisations such as the International Monetary Fund.²⁹ Interestingly, this policy agenda quickly also found its way to Iceland. The Icelandic press reported on the meetings, and Sveinn Björnsson, Iceland's ambassador in Copenhagen, participated in the Genoa proceedings. According to the main right-wing newspaper, *Morgunblaðið*, which officially supported Þorláksson's Austerity Alliance, "the conference [in Brussels] gave exceptionally clear and rational instructions on the financial reconstruction of Europe."³⁰ In his writings and speeches, Þorláksson aligned himself with "academic experts" and "economic science" over "practical bankers." He maintained that economists had been able to discern the true causes of wartime inflation and fluctuating exchange rates. They had instructed and corrected the "misguided" politicians, and were therefore to guide fiscal and monetary policy. Þorláksson was especially influenced by the leading "money doctor" advising the conferences, Gustav Cassel.³¹

Þorláksson drew explicitly on the memoranda that Cassel produced in the context of the two Brussels and the Genoa conferences, subsequently combined in a book entitled *Memorandum on the World's Monetary Problems* in 1922. These contributions marked the rise of Cassel to international fame as an authority on financial issues, second only in reputation to Keynes. As Mattei points out, both the experts' diagnosis and their policy advice—Cassel was joined by Arthur Pigou and Matteo Pantaleoni amongst others—were fully represented in the conference resolutions. The conference disseminated a common austerity template for identifying the causes of and the policy solutions to the financial

29 Clara E. Mattei, *The Capital Order*, 133–135.

30 *Morgunblaðið* 10 October 1925. Previously, this conservative daily had published a speech by the Danish Prime Minister, Niels Neergaard, in which he stated that "the International Financial Meeting in Brussels arrived unanimously at the conclusion that the only remedy to the financial crisis" included "austerity in public finances to achieve balance between revenues and expenditures [...] the government of Denmark has implemented this policy." *Morgunblaðið* 3 June 1921, 2.

31 See Jón Þorláksson, "Lággengið," [Currency Depreciation] in ed., Hannes H. Gissuararson, *Ræður og ritgerðir* (Reykjavík: Stofnun Jóns Þorlákssonar, 1985), 163–302, 184, 303; *Alþingistiðindi* [The Official Records of the Icelandic Parliament] 1925 C, 636.

crisis, thus laying out the steps governments needed to take to achieve economic stability and access to international credit markets.³²

Inspired by Cassel's monetary business cycle theory, Þorláksson penned a treatise in 1924, *Lággengið* (in English, *Currency Depreciation*), which not only offered the very first analysis of "the Icelandic economy," but also introduced the idea of the "business cycle" as a depoliticized object of expert analysis and management to a local audience. It was the first formal account of the Icelandic business cycle—Þorláksson coined the term in Icelandic, *hagsveiflur*—in terms of statistical aggregates, above all inflation indices. These had been initially created in 1914 as a simple average of commodity prices, and were calculated, by 1924, as a weighted average.³³ Indeed, it was such aggregate analyses of the conjunctural cycle in the 1920s that helped give rise to the very concept of "the economy," as a self-contained sphere of human activity that was both measurable and manageable.³⁴ Combining new statistical tools with theoretical analysis, Þorláksson refashioned himself both as an engineer and economic expert. Using Cassel's framework, Þorláksson attributed the economic woes of the war and the post-war period—entailing high levels of inflation, currency depreciation and newly-found public debts—to the creation of "artificial purchasing power." Beneath the veil of technical language, it was the workers who emerged as the main culprit. They either refused to accept pay cuts or were forcing salary increases which businesses could not afford. Given the lack of supply of goods during the war, workers deposited more of their earnings with banks, which, in turn, lent them out. This could at first sight seem like a virtuous process; however, Cassel pointed out that these savings were not being used to support productive investment but were primarily used by business to pay higher wages, in an unsustainable cycle of underinvestment. Thus, these loans created artificial purchasing power, as they were not grounded in increased levels of production. Instead, they came about through the bargaining power of workers, which forced losses on capitalists, who then took out loans to cover them. The profit share had been taken over by workers' wages. Even more negative was the role of the government, which borrowed these "unnatural" deposits to cover its deficits, in part to provide unemployment relief, which in turn prevented wages from going down. Not only did it engage in deficit spending, but the government's

32 Clara E. Mattei, "The Guardians of Capitalism: International Consensus and the Technocratic Implementation of Austerity," *Journal of Law and Society* 44:1 (2017), 10–31, 16; Clavin, *Securing the World Economy*, 19.

33 Þorsteinn Þorsteinsson, "Verðbreytingar síðustu ára" [Price Increases of Recent Years], *Tímarit lögfræðinga og hagfræðinga* 1:2 (1922–1923), 64–96.

34 Adam Tooze, *The Making of Modern Economic Knowledge: Economic Statistics and the German State, 1900–1945* (Cambridge: Cambridge University Press, 2001); Timothy, Mitchell, "Fixing the Economy," *Cultural Studies*, 12:1 (1998), 82–101.