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MICHELINI (Luca), CINI (Marco), « La Grande Guerre et les économistes italiens. Fin, transformation ou restauration du capitalisme ? »

RÉSUMÉ – La Grande Guerre a poussé les économistes italiens à s’interroger sur la cohérence des théories soutenues à propos des conditions exceptionnelles que représentait ce conflit et aux développements qu’aurait pu avoir un tel événement dans la période qui succéda à la guerre. La guerre une fois terminée, le “dogmatisme smithien” fut à nouveau proposé comme paradigme auquel aurait dû se conformer la politique financière de l’État. Deux économistes font exception. Achille Loria se fait interprète de l’école du “matérialisme historique” et Maffeo Pantaleoni défenseur orthodoxe de la théorie marginaliste. À travers une analyse des modifications affectant les mécanismes monétaires qui régulaient les échanges au niveau international, le troisième économiste dont nous traitons dans l’article, Attilio Cabiati, a choisi le pragmatisme pour modifier certains piliers du paradigme économique dominant.

MOTS-CLÉS – Théorie économique, Première Guerre mondiale, économie réglementée, Loria, Pantaleoni, Cabiati

MICHELINI (Luca), CINI (Marco), « The Great War and Italian Economists. The End, Transformation or Restoration of Capitalism? »

ABSTRACT – The Great War forced Italian economists to question the coherence of the theories supported apropos the exceptional nature of the conflict along with the potential developments which such an event could favour in the aftermath of the war. Once the war effort was over and done most economists fell back on the argument that the financial policy of the state needed to conform to the paradigm of “Smithian dogmatism”. However, two economists stood out as exceptions to this picture: Achille Loria, member of the school of historical materialism, and Maffeo Pantaleoni, an orthodox advocate of the marginalist approach. Attilio Cabiati, the third economist considered in the paper, developed a well-considered analysis of the changes to the monetary mechanisms regulating international trade. Cabiati developed novel ideas regarding the hitherto widely shared cornerstones of the economic paradigm.

KEYWORDS – Economic theory, First World War, Regulated Economy, Loria,  
Pantaleoni, Cabiati

# THE GREAT WAR AND ITALIAN ECONOMISTS

## The End, Transformation or Restoration of Capitalism?<sup>1</sup>

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### I

The Great War represented the real demarcation between the nineteenth and twentieth centuries. This observation, which has been underlined by an extensive international historiography, would also seem to apply to the science of economics in Italy (Bientinesi & Patalano, 2017; Michelini, 2016a), since World War I provided the circumstances in which the foundations of the various schools of economic thought that had reached scientific maturity during the final decades of the nineteenth century and the early years of the twentieth came to be tested. The economic events linked to the war forced Italian economists to question the coherence of their theories regarding the exceptional nature of the conflict and the developments which, in the field of economics, such an event might potentially bring about in the subsequent period.

After around ten months of neutrality, Italy entered the war in May 1915 with an undersized industrial system relative to its military needs and to the degree of development achieved by the other main

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<sup>1</sup> This paper is the result of a joint elaboration between the two authors. Sections 2-5 were written by Luca Michelini and sections 1, 3 and 4 by Marco Cini.

countries involved in the conflict. For this reason, it quickly embarked on an effort to reallocate resources towards industries ready to supply the troops fighting at the front with arms and equipment. This process involved dynamics similar to those experienced by the other countries in the war, although in Italy there were particular characteristics attributable to the fact that the country had begun its own process of industrialisation only a few years before. Italy, just to mention one particularly emblematic example, was preparing to go to war with an annual steel production of 900,000 tonnes compared to Germany's 17 million and Austria-Hungary's 2.6 million (Castronovo, 1995, p. 199-207). This imbalance was abundantly clear and difficult to overcome merely through the revival of ordinary economic policies or policies inspired by the liberal economic doctrines prevailing in those years. The state was thus forced to develop new strategies to finance the military effort and increase production: the urgent needs of the war called for the creation of centralising mechanisms and direct state intervention, the establishment of public bodies to oversee the provision of primary materials, the institution of a state monopoly on currency exchange, and the regulation of foreign trade.

In response to these problems, from 1916 Italy took part in the creation of the monetary mechanism, centred on loans and financial aid from the U.S., that eventually stabilised exchange rates by replacing the City of London's gold standard, which had collapsed after the outbreak of the war. At the end of the war Italian foreign debt exceeded 20 million gold lire, but nevertheless the difference that emerged between the value of the currency inside and outside of the country's borders after international rates were stabilised put the government in a position to establish a new balance based on different levels to those of the past, and thus to be able to fix internal exchange rates, prohibit capital exports and ban or restrict imports. These possibilities – which were linked to the question of financing the war – would dominate the discussions and analyses of the Italian economists, leading to positions that had previously tended to be characterised by a broad sense of unity to splinter into a diverse range of opinions that would later also influence the proposals that they put forward after the war. This was the case, as we will see, with the different interpretations of economic phenomena set out by Maffeo Pantaleoni and Attilio Cabiati.

In any event, state regulatory intervention made it possible to reconfigure national production around the needs of the war effort within only a few months. In June 1915 the Government issued a legislative order that established the policy known as Industrial Mobilisation and guaranteed the provision of sufficient military supplies. On the basis of this decree, the state was free to impose measures to increase the productive capacity of industrial facilities producing goods for the war, while for their part the industrialists could not refuse to supply the materials requested by the relevant ministries, and workers involved in such production were brought under military jurisdiction (Segreto, 1983, p. 301-334).

A key role in this impressive organisational effort was played by General Alfredo Dallolio, who in July 1915 was put in charge of the Undersecretariat of Arms and Munitions, a body that was upgraded to the status of a ministry in 1917 and oversaw over 1,000 industrial facilities. In August 1915 a further decree established the Committee for Industrial Mobilisation, which was entrusted with the task of identifying the factories that served as « auxiliaries » to war producers. These increased in number from 221 at the end of 1915 to just under 2,000 in 1918, at which time they employed 571,000 people. Together with the 330,000 employees of the military factories, the workforce involved in war production represented almost half of all the industrial workers counted in the 1911 census. The committees of Industrial Mobilisation established in each region distributed fuel and raw materials, and supervised production, and the state duly became the largest client of companies in every sector, as well as guaranteeing factory discipline and the availability of bank loans. Furthermore, by paying advances on commissions and offering tax deductions and exemptions from customs duties – measures which were intended to increase the factories' capacity to self-finance – the state allowed major industrial companies to accumulate large reserves of liquidity.

Wartime purchases of course favoured the heavy, mechanical and chemical sectors, thus encouraging investments into large-scale industrial plants. The increase in production allowed many companies to pursue consolidation strategies while growing and considerably increasing their productivity (Amatori & Colli, 1999, p. 117-126). The war, in other words, brought about a kind of accelerated « industrial revolution, » the effects of which were unexpected.

The reorganisation of relations between the state, industry and the workers' movement dictated by the pressing needs of the war prompted differing opinions from Italian economists, but the most obvious concern, that the Italian state might drift in a « socialist » direction, became particularly acute in the aftermath of the 1916 Paris Economic Conference. Following this event Enrico Toniolo, who worked closely with Dallolio, published a pamphlet in which he argued in favour of continuing the Industrial Mobilisation strategy even after the war (Toniolo, 1916) on the basis that the alliance between public institutions and industry was the main pillar of a new model of national economic development that relied on cooperation between the state and producers, on the involvement of technicians in decision-making, on the coordination of interventions, and on planned production (Zaganella, 2017, p. 181-206). From that moment on, the question of the state's role as a potential « regulator, » or even as an « entrepreneur, » which would push to the extreme certain trends that had already emerged during the time of the Giolitti governments, moved from being a marginal subject to one in which the Italian economists were forced to engage.

It is hardly necessary to underline that the growth experienced by the industrial sector during the war was made possible only by state demand, and in other words was unconnected to the market's true ability to absorb it. In order to finance the war, Italy, like the other countries in the Triple Alliance, had resorted to increasing the public debt and expanding the monetary base. From 1915 to 1918 the state issued five large national war loans, which yielded almost 14 billion lire, to which were added a large number of short-dated securities worth an additional 15 billion. It also relied on an expansion of the monetary base achieved through the issue of non-convertible currency. Only a fifth of the overall spending (which increased from 2.3 billion lire in 1915 to 20.6 billion in 1918) was covered by tax revenues, and the increase of money in circulation – which reached over 14 billion lire, only 11.6% of which the issuing institutions covered with reserves of precious metals – inevitably fuelled inflation, especially after the defeat at Caporetto in 1917. If we were to value prices in 1913 at 100, by 1918 they had increased to 409 and in 1920 reached 591.

The methods adopted by the Italian Government to pay for its war effort thus confirm the conclusions reached by Federico Flora, the only

Italian economist to have tackled the issue of financing wars before the outbreak of World War I, whose 1912 essay (Flora, 1912) demonstrated that a major conflict could be funded only by taking on debt and issuing non-convertible currency.

After the war, Italy was afflicted by one of the highest levels of inflation among the countries involved, while its productive apparatus emerged as something very different compared to the pre-war period. The gradual awareness of these transformations had led numerous Italian economists, in the initial years of the struggle, to reconsider and even modify their views. At the start of the conflict, most had upheld the validity of their scientific orientations, which could generally be placed under the label of « Smithian » liberalism, as, for instance, in the emblematic examples of Luigi Einaudi, Giuseppe Prato and Maffeo Pantaleoni. Over the years, however, their certainty dissipated, in some cases leaving room for more pragmatic approaches, even among the school of « orthodox » economists (Patalano, 2017, p. 159-168). Nevertheless, once the war effort was at an end most economists fell back on the argument that the financial policy of the state needed to conform to the paradigm of « Smithian dogmatism ».

However, two economists who even during the war had offered original contributions to the discussion on the conflict, its causes and the changes that it was forcing onto the national economic and social system stood out as exceptions to this picture. The first, Achille Loria, was a member of the school of historical materialism, while the second, Maffeo Pantaleoni, was an orthodox advocate of the marginalist approach. We believe that, in the context of the Italian economists of the period, the originality of their positions justifies the special attention that we will give in this article to a discussion of their analyses on the conflict and its potential consequences on Italian society. As we will see, for Loria the war provided an opportunity to reaffirm an interpretation of capitalism as an economic system based on the struggle between social classes and between nation states for limited wealth, in which exploitation – supported and laid even more bare by the changes in socio-economic relations that emerged during World War I – was behind the rise and fall of « social constitutions, » both on the political and social level and the social and cultural one.

Pantaleoni's objective was instead to uphold the « pure » laws of the economy even during the war, and the corollary of this position was his



clear rejection of any possibility that the « collectivist » theories and practices that had emerged or been revealed by the conflict, and for which there continued to be some yearning in the years immediately after its end, had any validity. After the war, Pantaleoni's radicalism led him to reject out of hand the alleged « neutrality » of the pure economy, to delegitimise any prospect of social and reformist change, and, ultimately, to openly support the nationalist-fascist response.

Even more significant, however, was the lack of recognition of the changes to the dynamics of the international capitalist economy and the Italian industrial structure brought about by the long war, which were also an obstacle to the resumption of economic activities after its end. In view of this, we have found it appropriate to give space to an analysis of a third economist, Attilio Cabiati, who, although a member of the liberal school, developed a well-considered analysis of the changes that the war had introduced to the monetary and financial mechanisms regulating international trade. In doing so, Cabiati developed certain pragmatic new ideas regarding the hitherto widely shared cornerstones of the economic paradigm, and ended up endorsing what he saw as the inevitability of state intervention in the economy, thereby flouting the liberal dogmatism that had typified the community of Italian economists and that was re-proposed immediately after the war.

## II

Achille Loria, who developed an original interpretation of Karl Marx's historical materialism, was a long-running point of reference for the academic discipline of economics<sup>2</sup>, as well as influencing the economic philosophy of the Italian Socialist Party (Fauci & Perri, 2003, p. 203-238). His authority was heightened by the interest that

2 Loria taught Political Economy in Siena (1881-1891) and Padua (1891-1903) and later moved to the University of Turin (1903-1932). He collaborated with the most important Italian scientific journals of the era (including the *Giornale degli economisti*, *La riforma sociale*) as well as with foreign journals, such as the *Economic Journal*, the *Revue d'économie politique*, the *Journal of Political Economy* and the *Archiv für Sozialwissenschaft und Sozialpolitik* (Augello, 2013, p. 851-942).

his work aroused in several European countries and in the United States (Ottaviano, 1981).

Loria had been resolutely opposed to the war and initially embraced the neutrality pursued by the Italian government. Following Italy's entry into the conflict, however, and in particular after its initial military setbacks, he came out in favour of the country's participation, developing arguments that echoed those of the diverse movement in favour of democratic interventionism (Maccabelli, 2010, p. 167-182). The need, imposed by the war, to make the search for a solution to the « political issue » a higher priority than the effort to resolve the social issue (Loria, 1915, p. 3) did not prevent Loria from restating an interpretation of capitalism as an economic system based on a struggle for the control of wealth fought between social classes and between states, nor did it stop him from arguing that the war itself would demonstrate the historical unsustainability of the capitalist system.

For Loria, the sudden outbreak of war was entirely the result of economic factors since « war has an essentially and directly economic objective » (Loria, 1921, p. 72), as the « wisest thinkers of the two main belligerent states », namely Gerhart von Schulze Gävernitz in Germany and Ramsay MacDonald in England (Loria, 1921, p. 41), had pointed out.

The deep-rooted causes of the conflict were best sought out in the imperialist motivations that placed the main European States, in particular Germany and Great Britain, in profound competition with one another: while Germany was characterised by a social structure based on an alliance between land rents and interest from bank deposits, Britain's social constitution was dominated by the capitalist class and its yearning for profit. A feature common to both sides, however, was the presence of financial capital, that is of « capital that migrates abroad [and] has an interest in the political subjugation of the country to which it migrates, because only this makes its ability to exploit the labour force and overseas territories certain » (Loria, 1921, p. 6). A second element shared by the ruling classes of the warring countries was their need to eradicate the socialist movement throughout Europe: war stifled all class antagonism in the name of an overarching national interest and, while it impoverished a segment of the bourgeoisie, it did not call into question the principle of private property (Loria, 1921, p. 32-36). Similar dynamics were also clearly present in Italy, which by then had become

a capitalist country whose imperialist ambitions in the Mediterranean and Asia Minor depended on the completion of a process of national unification that was essential to the maintenance of a defensive barrier against Austria and Germany, which aspired to expand into the same regions (Loria, 1921, p. 23-25).

The effects of the war on the economies and societies of the countries involved provided abundant support for this interpretation of the causes of the conflict. Despite the increase in productivity recorded in the industrial sectors involved in the production of war materials, the Great War led to a reduction in social product and wealth both within individual countries and internationally, an outcome triggered by the variation in what Loria called the « natural distribution » of capital and labour during the war (Loria, 1921, p. 221). The loss of wealth, however, affected the social classes and countries involved differently: small- and medium-sized enterprises and the petty bourgeoisie and middle classes clearly lost out, while larger enterprises and the banks gained increasingly significant advantages thanks to the consolidation supported by the state (Loria, 1921, p. 253). According to Loria, the « public loans and wild speculation » of the war,

increase earnings from unproductive capital, and the bulk of this capital and the rising price of agricultural products and rents increase income from agriculture and real estate. In the meantime, income from productive capital (except for money invested in war industries) and the income of those deriving interest on unchangeable money and of employees decreases (Loria, 1921, p. 259).

War, in short, led to a radical redistribution of wealth, and this was further accentuated by the methods adopted by the ruling classes to distribute the increased tax burden necessary to meet the costs of armed conflict. Loria had therefore spoken in favour of price controls, a measure he believed to be effective in countering increasing rents and monopolistic forms of production (Loria, 1921, p. 211-213)<sup>3</sup>. Most particularly, Loria openly identified the « clandestine character » of the

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3 In particular, on the issue of how to fund the war, Loria believed that the most obvious instrument was through taxation, in particular an extraordinary tax on capital, which would weigh only on the current generations, as opposed to an extraordinary tax on income, which would also affect future generations (Loria, 1921, p. 266-276). See also Loria, 1916.

increase in public debt and the enforced circulation of newly printed currency, which made the two policies « singularly dangerous », since they led to a practically unlimited expansion of the monetary supply (Loria, 1921, p. 149). The increase in fiat currency, as Loria pointed out during a series of lectures held at Bocconi University immediately after the end of the war, had been brought about mainly through « so-called expansionary loans, which are perhaps the only monetary novelty of this war » (Loria, 1920, p. 17). These, in essence, were loans released by commercial banks on the basis of a subscription to public debt securities issued by the state, meaning that they did not end up transferring to the state currency already in circulation but instead gave rise to the creation of new money: « only during this war », Loria explained, « do expansionary loans take on a systematic character and become a powerful element in the expansion of paper currency » (Loria, 1920, p. 25). The rise in inflation was the reason behind the net losses also suffered by the working class: the improvement in the workers' position brought about by the restricted labour supply during the war was in fact totally absorbed by the increase in prices, which significantly reduced the benefits of higher wages (Loria, 1921, p. 240). Inflation had a severe impact on labourers, as the nominal value of their work rose much more slowly than the increase in paper money, meaning that the enforced circulation of new money gave rise to a real contraction in real wages « to the benefit of the business owner » (Loria, 1920, p. 103)<sup>4</sup>.

This trend was bound to exacerbate the social conflict that distinguished the socio-economic structure of capitalism. In fact, while on the one hand in the victorious countries the war had triggered a process in which wealth became ever more concentrated, on the other it had heightened working-class demands for the democratisation of the economy and public institutions. The war, therefore, was at the origin of a contradiction that could not be solved at the level of political mediation: for as long as capitalist relations innervated economic and productive dynamics, democracy (defined by Loria as « the political form in which government is in the hands of four tycoons ») would remain unable to rebalance the system, and the alliance between unproductive capital

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4 In support of this point, Loria referred to the calculations made by the Cassa Infortuni (Accident Insurance Fund), according to which from 1914 to 1917 wages had risen by 29.75%, while food prices had risen by 82.7% (Loria, 1920, p. 104).

and income would allow conservative social forces and the parties that represented them to hold on to power. For Loria, « a genuine rise to power of the masses is incompatible with the persistence of the capitalist regime », and even the post-war institutional projects aimed at maintaining the peace appeared completely utopian because « only a state governed by workers [...] is necessarily a pacifist state » (Loria, 1921, p. 444). However, the Mantuan economist specified that the conflict had laid the foundations for the overthrow of « bourgeois » state, and « just as the war of 1870 created socialism, that of 1914 clears its path to power » (Loria, 1921, p. 432). The ultimate outcome of the Great War – an epochal moment for the destiny of capitalism, one which had revealed its anti-historicism – was therefore that it had encouraged the birth of an « egalitarian labour economy » (Loria, 1921, p. 455-456), and although the transition from theory to practice was undoubtedly complex, this did not mean that the workers' movement had to abandon the struggle to move from the capitalist to the socialist system.

To this end, Loria recalled, more or less explicitly, the experience of Industrial Mobilisation tested during the war, when the state, the industrialists and the workers launched a period of collaboration aimed at increasing national production, and he proposed new legislation which would lead to the establishment of forms of shared company management between business owners and workers (Loria, 1918, p. 697-699). This anticipated the proposals that would later characterise the Italian debate on the so-called « workers' control » developed during the factory occupations of the *Biennio Rosso* (Red Biennium).

### III

Unlike Loria, Pantaleoni was a convinced interventionist<sup>5</sup>. His approach to the interpretation of the world war was also quite different

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5 Pantaleoni taught Political Economy at the universities of Camerino, Macerata, Naples, Pavia and, finally, Rome. He also directed the *Giornale degli economisti from 1890 to 1924*. There is an extensive bibliography covering Pantaleoni's life and work, but we believe it is particularly worth pointing the reader to: Augello and Michelini, 1997; Michelini, 1998; Bellanca and Giocoli, 1998; and Michelini, 2011.

from Loria's<sup>6</sup>, and derived from the original articulation of marginalist economics, of which the Italian economist made himself an interpreter and which concerned itself with analysing the actions of individuals rather than the activities and conflicts of economic classes or social groups (Pantaleoni, 1917, p. 14).

As is widely known, Pantaleoni defined pure economics as the discipline that isolates economic actions from political ones, within the broader category of « human actions ». With a few exceptions, he conceived economic theory, or « pure economy, » as the « science of voluntary and therefore peaceful structures » and argued that it concerned « contractual relationships » that can be established « only in cases where there is either equality of power or where – and this is the same thing – we are not aware of a disparity or we ignore the consequences to which the use of violence might lead » (Pantaleoni, 1925, vol. I, p. 358). Any definition or analysis involving the concepts of “strength” and “weakness” therefore belonged to sciences other than economics, from “history” to the social sciences distinct from economics.

In keeping with this approach to the science of economics, Pantaleoni considered it a mistake to believe that war could revolutionise either the laws governing economics or the economic actions of individuals:

Economics does not deal with *every aspect* of human behaviour! It is far from interested in researching the steady conformities that reveal themselves in the satisfaction of *all* tastes, tastes *of all kinds!* [...] Economics can only be the study of the choice of satisfying different tastes and the decisions regarding the ways of doing so, with an eye on achieving the greatest possible certainty or the greatest level of satisfaction. In this respect, it studies all kinds of behaviour. This is something that never changes (Pantaleoni, 1917, p. 9-10).

In this way, Pantaleoni reaffirmed the ability of marginalist theory to provide a coherent explanation for all economically relevant phenomena, including the problems brought about by war. He therefore believed

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6 Pantaleoni entrusted his reflections on the conflict to four volumes, mainly composed of articles published in journals: *Tra le incognite (Among the unknowns)* (1917), *Note in margine della guerra (Marginal notes on the war)* (1917), *Politica: criteri ed eventi (Politics: criteria and events)* (1918), *La fine provvisoria di un'epopea (The provisional end of an epopee)* (1919). The essay entitled *Gli insegnamenti economici della guerra (The economic teachings of war)*, which appeared in part in the *Giornale degli economisti* and in the *Atti della Società italiana per il progresso della Scienza* and was then republished, revised, in the volume *Tra le incognite*, was particularly relevant.

it neither necessary nor worthwhile to elaborate theories that distanced themselves from « pure economy ».

War, Pantaleoni explained, presented itself to economists « as the sudden emergence of a new taste or need within the series of tastes or needs that were previously satisfied or fulfilled » (Pantaleoni, 1917, p. 15). The task of the economist was to analyse the specific features of this new need, to reflect on the most appropriate tools with which to satisfy it, and to investigate the economic consequences that the emergence of the need and the cost of its fulfilment produced (Michelini, 2016b, p. 93).

As a consequence, economics could not be interpreted in light of the clash between social classes with opposing economic interests, as Loria proposed, and war did not imply any relationship of exploitation between one class and the others. Instead, war was the result of purely « extra-economic » actions, and the science of economics was therefore not relevant to the analysis of the « need » for war, or in other words the way that individual needs bring it about, nor to the consideration of the political and state mechanisms of its conception. The mechanism behind the emergence of this need was, by definition, extraneous to the scientific *corpus* of pure economics, which was obliged to view it as a predetermined fact.

Using the theory of exchange formulated by Gossen and Jevons, Pantaleoni attempted to develop a logical apparatus capable of explaining the dynamics which, fuelled by the conflict, had brought about profound changes in national and international trade, and in the contours of behaviour between individuals and states. The war unfolded as a series of shocks that profoundly altered the peacetime division of labour and the pre-war price system, forcing a significant reprioritisation towards the production of goods needed for the military effort and away from other goods. For Pantaleoni, any measure that obstructed the technical need for full productivity was particularly harmful to the creation of wealth and the expansion of tax-raising power: he therefore openly rejected the measures demanded by the socialists and trade unionists intended to safeguard the workers' share of the net income generated by industrial activity (Pantaleoni, 1917, p. 110). In line with this approach to the problem, Pantaleoni considered it necessary to defend the additional profits generated during the war, since these were needed to protect the complex system established to meet the needs of the military effort,

and he condemned in no uncertain terms the « egalitarian envy » underpinning the pressure placed on the legislative to introduce fiscal penalties on surplus profit (Pantaleoni, 1917, p. 79-80). He also deplored the introduction of all forms of price control, which he saw as a tool designed to reduce corporate productivity<sup>7</sup>.

In the financial sphere, the war had forced governments to choose between increasing taxes, raising the public debt or printing more paper money. The unexpected scale of the First World War and the lack of preparation of the countries involved in it meant that they all chose either to increase borrowing or to issue more money (Pantaleoni, 1917, p. 56). Having discarded the option of increased taxation because of its dampening effects on the economy, Pantaleoni threw his weight behind an increase in public debt and inflation. While Loria considered such a decision to be a class issue due to the fact that the public debt was one of the privileged forms assumed by unproductive capital, Pantaleoni offered a very different explanation, justifying it as the inevitable consequence of the fact that the countries involved in the war had not been ready to sustain such a prolonged struggle.

Pantaleoni understood the considerable impact that the forced circulation of currency had on the general level of prices, as well as the resulting redistributive effects. However, as far as the workers were concerned, he believed that the reduction in the purchasing power of their wages due to inflation had to be weighed against the additional income that they enjoyed in their position as debtors (Pantaleoni, 1917, p. 72).

Once the conflict was over, the goal of rebalancing the public budget would inevitably have to be achieved by significantly reducing costs, cutting red tape and lowering the number of public workers. The tax system would have to be reformed by abolishing any levies that hindered economic activity and by radically reforming taxes on moveable assets. Pantaleoni acknowledged that the changes brought about during the war meant that the « shareholder state » would sometimes have to be afforded a special role, but only when and where absolutely necessary, for instance in organising the transportation of emigrants overseas or in supporting companies developing hydroelectric power. Equally conceivable was the

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7 It is worth remembering that the taxation policies proposed by Pantaleoni were taken up and applied by Finance Minister Alberto De' Stefani during the initial phase of Fascist government (Michellini, 2011).



creation of new fiscal monopolies (Pantaleoni suggested taxes on alcohol and the nationalisation of sugar production and mineral extraction) but thought that these should be balanced out by abolishing other ones (such as those on insurance and telephony)<sup>8</sup> (Pantaleoni, 1917, p. 120-129).

Nevertheless, despite recognising the unavoidable need for public intervention in the economy, Pantaleoni systematically resisted the state's growing and undifferentiated economic interference in the name of a conception of economics based on complete individual economic freedom. He was therefore opposed to expansive forms of public participation in the economy and to any « socialist » drift:

The confluence of the enormous extension of the government's role with the socialist and protectionist movements, as well as with a confused nationalism, has helped to spread the opinion that the art of economics should be radically revised and that, as those who lack any scientific background add, so should the science of economics, as if any science were a collection of rules of conduct and the science of economics should therefore also have a preceptive content and could be either liberal, individualist or protectionist, or a *mixtum compositum* of such rules (Pantaleoni, 1917, p. 85).

Pantaleoni thus expressed his avowed intention to uphold the unalterable validity of the laws of economics against the view of all those who, from different political standpoints – be they protectionists, members of various liberal currents, socialists or Communists – saw wartime collectivism as the harbinger of a new economic era (Pantaleoni, 1917, p. 75-76).

Besides, Pantaleoni reiterated, the war years had confirmed the state's inability to manage the complex economic mechanisms of industrialised society:

The bureaucracy's technical management, which is already inherently ignorant, slow and dithering, is made even worse by artificial *price disruptions*, which divert businessmen from any cooperation, so that should the government even dip its finger in a particular service, it would soon be forced to take it over completely. If, for example, the government were to start buying a certain quantity of grain abroad in order to then sell it domestically, it would gradually have to take over almost all the trade in this commodity, because traders in that sector would stop operating where purchase and sale *prices* depend on the consent (I

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8 On an international level, Pantaleoni declared himself in favour, on the basis of pragmatism, of a customs system that would avoid having distorting affects as much as possible, while waiting for new areas of free trade to be defined.

will not say on the whim) of the government. Should the government resort to price caps or requisition goods at prices other than those of the market, producers of the new supply of the regulated product would in turn take into consideration the disruption when regulating the production of the new supply. One of the basic conditions of *maximum* production and therefore of *minimum* price, i.e. the freedom and legal certainty of contracts, would be undermined. When the government increases and exacerbates ceiling prices, producers and traders respond by withdrawing even more visibly (Pantaleoni, 1917, p. 26).

Pantaleoni ended this reasoning-invective by stressing that « If the recent activity of the state provides confirmation of any of those economic doctrine that are as old as the hills, it is surely this: that it is completely incapable of carrying out any commercial and industrial function » (Pantaleoni, 1917, p. 76).

#### IV

While the First World War had offered Loria and Pantaleoni an opportunity to reaffirm their respective ideas concerning the science of economics, for Attilio Cabiati<sup>9</sup> it represented the chance to measure the axioms of the marginalist theory of economics against the changes that had occurred within the structure of industrial societies and the international monetary and trade system.

On the eve of the conflict, Cabiati's theoretical structure had been very close to that of Pantaleoni, since like him he identified with the marginalist school, even though on several occasions he had also paid considerable attention to the socialist movement and the demands of the workers' organisations. Furthermore, after having initially supported the expediency of Italy's neutrality, he eventually also sided in favour of its intervention in the war, after coming to believe that non-involvement would bring only artificial gains and drive the country to the margins

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9 Cabiati taught Political Economy at the universities of Genoa and Luigi Bocconi in Milan. In 1924 he was hired by the University of Bologna, where he remained for only a few months. Following the introduction of anti-Semitic legislation by the Fascist regime he was barred from university teaching. On Cabiati see Marchionatti, 2004 and Becchio, 1999.

of the international economy (Bientinesi, 2016, p. 212-213). Cabiati addressed the problems related to the war in three articles published in the *Giornale degli economisti e Rivista di statistica* under the joint heading *Problemi finanziari della guerra* (Financial Problems of the War). The first was entitled *L'imposta speciale sui sovrapprofitti* (The Special Tax on Excess Profits; published December 1915); the second *Di alcuni rapporti ed influenze dei prestiti e delle imposte in relazione alla distribuzione del reddito* (On Certain Relationships and Influences of Loans and Taxes in Relation to Income Distribution; March 1916); and the third *La "Mitteleuropea" e le più recenti allucinazioni dei protezionisti* («Mittleuropea» and the Protectionists' Latest Hallucinations; August 1916). He used these articles to analyse the problems caused by the shift from a peacetime to a wartime economy, which from the perspective of the state called for the development of a totalitarian «plan» through which to establish the industrial production needed to satisfy the needs of the war effort, as well as those of the internal market and the markets of countries with which Italy had economic relations<sup>10</sup>. In any event, Cabiati made his most important analytical contribution after the war, when the profound transformations that the wartime years had brought to the productive fabric and to Italian society more broadly led him to look with interest and without preconceptions at the way that the public intervention in the economy and joint management of the factories had been organised.

Cabiati observed that the war had exposed certain «economic phenomena that invalidate the essential conditions of free trade, in its most typical and useful manifestations». The conflict had brought down one of the key pillars ensuring a balance in international trade, namely the gold standard, thus undermining the prospect of regulating monetary flows and, in turn, the market's ability to self-adjust through the use of the discount policy (Cabiati, 1921). The transformations in the industrial structures of the countries involved in the war had also favoured the realisation of monopolistic agreements between industrialists and traders. In addition, no government, including the Italian one, could meet the costs of war solely by raising taxes, meaning that the option of increasing inflation – the consequences of which weighed heavily on the

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10 Cabiati would continue to reflect on these subjects even after the war, eventually collecting together his analyses in the volume entitled *Il finanziamento di una grande guerra*, Torino, Einaudi, 1941.

post-war monetary and economic situation – became inevitable. Finally, Cabiati believed that the decision to allow exchange rates to fluctuate freely – the « necessary condition to the state's non-intervention » – had aggravated the « weakening of currencies », intensifying the burden of the war on the public finances and on the less wealthy social classes. The economist thus ended his analysis by arguing that the policy calling for inter-state agreements designed to stabilise exchange rates should be considered the most economically appropriate, since these had preserved wealth and income as much as had been possible (Cabiati, 1922, p. 240).

At the end of the war, Cabiati noted that the changes of the previous years called for a completely new assessment of the state's intervention in support of the war effort and, more generally, of the economic life of the country in the post-war years<sup>11</sup>. The theoretical framework that he used was based on the determination that, by distorting the market reflexes that the convertibility of precious metals and the free movement of capital and goods had made possible, the war had irreversibly altered the balance that had characterised the historical period of competitive capitalism. This change to the international economic order and to the economic order of individual nation states made policies of active state intervention in the economy – policies that had previously been rejected as unorthodox by liberal economists – conceivable and perhaps even necessary. In this way, and without rejecting marginalism, Cabiati adopted a non-dogmatic attitude that allowed him to analyse the profound changes introduced into industrial systems during the war – such as technical innovations, the expansion of monopolies, the new role of the state in the management and distribution of raw materials, and so forth – which were also strongly influenced by the difficult and uncertain restoration of the international market after it. Such changes led to the inevitable question of how to reorganise the economic fabric of the country, an answer to which had to begin with a non-ideological evaluation of the relationship between the productive system, in all its components, and the state, which during the conflict had assumed the role of « supreme regulator. » On this matter, Cabiati – channelling the insights of Pareto and Barone – was not afraid to acknowledge that

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11 This awareness was at the origin of his commitment to public institutions. He held positions in various ministries and in the research department of the post-war Economic Reconstruction Agency.

from the theoretical point of view, and leaving aside the practical frictions and difficulties, a socialist state does not appear to be abnormal. Abnormalities arise only if the state wishes to regulate certain coefficients of production while leaving others free. In that case, the illogical regime that would arise would have all the drawbacks of both the system of freedom and the system of constraint, without any of the advantages of either (Cabiati, 1920, p. 79).

The economist had expressed this position just as explicitly shortly before the end of the war, and had in fact taken great care to make clear that the call for active state participation in the economy in no way invalidated the foundations of liberal economics: « the economic science », Cabiati wrote,

does not teach us to be liberal or interventionist. Instead it demonstrates that the issues of the economic world are so mechanically connected to each other that the absurdity or error resides in the belief that we can meddle with one while leaving the others unaltered. When we wish to influence one factor, all the others change automatically and often the changes cancel or balance out the effect that we wanted to exert on the first one (Cabiati, 1918, p. 2).

The « *Chiesuola liberista* [liberal faction] », on the other hand, refused to take note of the altered situation and continued « to speak ill of the state and the bureaucracy, and its functions ». Cabiati, however, observed that the state was evolving « in a new direction » and that from an economic point of view it was necessary to organise it differently. According to the economist, « the defect of today's state system consists precisely in carrying out industrial functions with a bureaucratic organisation which, while excellent for the classic tasks, is disastrous for new ones ». He thus concluded that it was necessary « to educate a part of bureaucracy to take on and manage industrial functions » (Cabiati, 1922, p. 241).

By that point the war had profoundly altered the mechanisms of production and circulation, and the terms of trade, yet at the same time the « glorious lessons » of those years – attributable to the experience of Industrial Mobilisation – had made clear « the incalculable gain which intensive production has brought through cost reduction », through mass manufacturing, and through placing of female, or in any case unskilled, labour in control of machinery. Another lesson stemmed from the close connection which emerged during the conflict between science, technology and industry, « and therefore from the entrepreneur's complete freedom to introduce changes, even profound ones, in manufacturing

techniques without bumping into short-sighted opposition to change from workers' organisations ». Equally fundamental was the awareness, acquired by entrepreneurs and workers, of « solidarity in the production phenomenon, of the permanent harm of unemployment, of the collective usefulness of work that is rational in terms of duration, movements and intensity » (Cabiati, 1920, p. 113).

Cabiati's analysis of the changes that occurred during the war – which represented a legacy, and possibly a long-lasting one, that the country would have to deal with during the difficult post-war years – did not stray beyond the confines of an economic approach still firmly anchored to the principles of the liberal school. The examination of monetary problems, of the centrality acquired by the banking system, of the inefficiency of the tax system and, more generally, of the vision of society that the Turinese economist entrusted to his writings makes it impossible to place him in any other economic school. However, unlike Pantaleoni's openly « ideological » approach, the well-structured analyses produced by Cabiati in the early years of the post-war period appear to be closely linked to a critical and non-dogmatic methodology that would continue to encourage the debate on the aforementioned topics and the role of the state, a debate that, during the Fascist period, would witness additional and more radical developments that were not always consistent with the position expressed by him.

## V

It should now be clear that there were clear differences, even great ones, between the three authors' discussions and analyses of the war and its consequences. These included different views on the causes of the conflict, on the different ways to finance it, and the changes that it brought to the distribution of wealth between the social classes, among other things. However, it seems to us that the most significant point, which demonstrates the uniqueness of the economists' analysis, concerns their reflections on the consequences that the war – with the profound transformations that it introduced to the system of production, to the

composition of the working classes and to the international financial and monetary order – had for the state. The state's responsibility changed radically during the war, and this also influenced its prospects, nature and its potential role in managing the complex socio-economic phenomena that were emerging after the conflict. In relation to this specific theme, the three economists' analyses differentiated themselves from the prevailing tendencies in the liberal community of economists as a whole.

As we have seen, for Loria the war was the expression of an economic system, the capitalist one, that was based on exploitation and on deep social and economic conflicts, both at a national and an international level, that would only be resolved by the replacement of the system itself. Loria wanted to overcome what he saw as an unfair distinction between the state and civil society in order to bring about not so much a planned society like the one envisioned by Marx, but a market society in which the attribution of the product to the worker would be « integral. » For Pantaleoni, on the other hand, war was an opportunity to confirm the laws of economics, which carefully avoided asking questions about the origins of profit, social conflict and the great war, and which all supported the refutation of socialism and any form of institutional and social democratisation of the country more generally. While in Loria's view the war ought to have marked the end of capitalism, for Pantaleoni it ought to have signalled an end to all forms of economic parasitism, that is all forms of statism and socialism.

It was precisely with regards to the role of the state that cracks in the marginalist coalition emerged: Pantaleoni attempted to find a new relationship between the state and the market without even slightly calling into question the laws of capitalist production and distribution, in fact strengthening them in their most historically reactionary manifestations. On the other hand, Cabiati, who was more attentive to the discontinuities that the war had introduced in the logic of the functioning of the international economy, studied the experiences gained after the war with interest and without preconception, judging them on the basis of the changes to both industrial organisation and the economic structure of the country and the balance connected to it.

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