Bank of England's Carney channels Keynes

By Elisa Barwick

At the US Federal Reserve's 22-24 August Jackson Hole Summit the head of the Bank of England and Bank for International Settlements (BIS) bigwig, Mark Carney, proposed the world bypass the US dollar and establish a new reserve currency, signalling a move to a new "financial architecture". The proposal is for a "Synthetic Hegemonic Currency", i.e. not an existing currency, and ultimately it would be digital.

"While the world economy is being re-ordered, the US dollar remains as important as when Bretton Woods collapsed", said Carney, referring to the take-down of the 1944-71 fixed exchange rate order. With money flowing into relatively safe US dollar investments creating a "liquidity trap", he argued that the value of the US dollar was making it harder for central banks to manage domestic inflation targets (to stimulate growth) and interest rates. Translating from banker-speak, this means they are hitting barriers to the extension of quantitative easing and deployment of ultra-low and negative interest rate policy to bail out the collapsing financial system.

The current financial framework is "encouraging protectionist and populist policies which are exacerbating the situation", said Carney, which "bolsters the likelihood of an extreme downside event", a.k.a. a crash. Therefore, the Bank of England's prescription for reform must be imposed globally: "In the new world order, a reliance on keeping one's house in order is no longer sufficient. The neighbourhood too must change." Due to the current deficiencies, Carney called for an enhanced role for the IMF: "the IMF should play a central role in informing both domestic and cross border policies".

The "financial stability" of advanced economies "are global public goods", claimed the banker, adding that "The Bank of England is acutely conscious of these responsibilities, given the City's role as the world's leading international financial centre." Ultimately, a new global financial system is required, he concluded, with a "true reserve currency" at its centre.

Financial stability has been the mantra of independent central bankers since the early-1920s drive to establish a global central bank outside of the reach of national and international law which resulted in the BIS ("Shut down fascist BIS bankers' cabal!", *AAS,* 6 March 2019). Carney's proposal is in keeping with his role as enforcer of that global financial dictatorship and with Britain's historical opposition to a gold-backed US dollar reserve currency. As head of the BIS's Financial Stability Board (FSB, 2011-18) and Bank of England (2013 to present) Carney presided over the implementation phase of the new global "bail-in" regime, coordinating the monetary policy of nations around the globe on an unprecedented scale. Bail-in was added to the monetary toolbox of regulators following the 2008 crisis, allowing them to confiscate certain investments and savings to return collapsing banks to solvency. The IMF, to which Carney wants to give more power, has been co-enforcer of this policy.

Enter Keynes

Carney's suggestion echoes the proposal made by British economist John Maynard Keynes at the 1944 New Hampshire Bretton Woods conference, which was convened to create a stable international currency and capital framework for international trade and finance. At the forum of 44 nations Keynes proposed the world should be ruled by a global central bank, the International Clearing Union, which would issue a supranational currency, the "bancor", essentially forming a one-world government.

Lord Keynes (right), with Harry Dexter White at the Bretton Woods conference. Photo: Wikimedia

The bancor was to be exchangeable at a fixed rate with all national currencies, to facilitate international payments. Trade would be "cleared" via the International Clearing Union, which would mediate trade deficits and surpluses. The bank would be able to tax those deficits or surpluses, depending on current policy objectives, or even expropriate surpluses at the end of the year.

Keynes's proposal was fully endorsed by the British government, reflecting PM Winston Churchill's intention to expand the British Empire following World War II. The proposal was rejected by the lead US negotiator at Bretton Woods, Harry Dexter White, on the instruction of US President Franklin Roosevelt, who rightly saw it as a central bank dictatorship. FDR was the conceptual author of what was eventually voted up at Bretton Woods—opposed only by the UK. A senior Bank of England official at the time said that Bretton Woods was "the greatest blow to Britain next to the war".

The battle was between FDR's concept of a stable reserve currency to foster international credit arrangements among sovereign nations, and the British concept of global monetarist control. Bretton Woods institutions, the World Bank and IMF, were supposed to function in a manner similar to the financial institutions that funded FDR's New Deal reconstruction programs—to end colonialism and uplift third-world nations by facilitating development. FDR's conception was oriented to building the productive physical economy; Keynes's was a monetarist approach to rectifying financial imbalances by pumping out money regardless of where it went. Unfortunately, due to his untimely death, FDR's concept was never fully realised.

Roosevelt had been engaged in a fight against private financiers, such as the House of Morgan, which had done everything in its power to prevent him assuming the presidency. He repeatedly slammed efforts to erect a tier of financial power over and above the state, for instance in his 1938 "Message to Congress on curbing monopolies", denouncing the usurpation of government decision-making by bankers as *fascism* (*AAS,* 28 August).

During negotiations for an agreement to mediate ongoing currency wars ahead of the Bretton Woods summit, Roosevelt had "demanded the removal of any reference to 'Central Banking cooperation' associating central banking with 'private finance' as did his Treasury Secretary [Morgenthau], whereas monetary policy [for FDR was] wholly a matter for government".[1]

1. *The Battle of Bretton Woods: John Maynard Keynes, Harry Dexter White, and the Making of a New World Order*, by Benn Steil, 2013. This book otherwise airbrushed from history the import of FDR's role in Bretton Woods and painted White as a Soviet asset. See "It Was FDR's Bretton Woods!", by J.P. Rubinstein, *EIR,* 18 Oct. 2013.

Keynes, on the other hand, knew his theory fit the bill of fascism. His 1936 magnum opus, *The General Theory of Employment, Interest and Money* appeared first in German because he believed his theories were best suited to Hitler's Germany. In the introduction of the German edition, he admitted his theory was "much more easily adapted to the conditions of a totalitarian state, than is the theory of the production and distribution of a given output produced under conditions of free competition and a large measure of *laissez-faire*."

While he thus counterposed the theories of the totalitarian state and the free market, in reality the two are both tools of the same financier elite. Keynes loved Friedrich von Hayek, a key proponent of the Austrian school of economics and co-founder of the Mont Pelerin Society, saying he was in "deeply moved agreement" with von Hayek's *The Road to Serfdom*. Both schools are based on imperialist notions which supersede national government of, by and for the people. The American System of economics had been developed as a true alternative, operating on diametrically opposed principles to the "left" and "right" wings of the imperialist system. It was created by a young American republic forging an independent system of governance, which realised it would not be independent for long if it did not develop its own industries, infrastructure, productive capacity, and monetary sovereignty. FDR's Bretton Woods ideals were designed to share those methods with the world, as is China's Belt and Road vision today. National sovereignty, cooperation among nations utilising national credit systems, and development characterised by increasing levels of technology are the prerequisite basis for any worthy New Bretton Woods arrangement.

Countergangs

Seminal British imperial institutions such as the Royal Institute of International Affairs (RIIA) appear to promote a new Bretton Woods conference due to the fear that a new financial architecture is otherwise building steam, especially around China's development deals. A 12 June 2019 RIIA article, "Renew the Bretton Woods System", suggests that because the current economic system has not kept up with global changes, "larger emerging markets feel less constrained by the [read, 'our'] rules and norms", and "emerging markets have responded by setting up institutions to rival the IMF and World Bank", including the BRICS National Development Bank, the Chiang Mai Initiative (a series of bilateral currency swap agreements among Asian nations) and the Asian Infrastructure Investment Bank (AIIB). In addition it cites the "rise of populism" in advanced countries, due to "dissatisfaction with what many consider the damaging effects of globalisation". The "Washington consensus", namely the domination of trans-Atlantic institutions such as the IMF and World Bank, is being eroded. Without changes, the system will "break".

Together with our international collaborators, the CEC has followed closely the networks promoting a New Bretton Woods for four decades, and they almost always throw back to the same networks that took down the original Bretton Woods, or attempted to prevent it in the first place. One of the most recent is former Greek Finance Minister Yanis Varoufakis, who in 2018 established an alliance with US Senator Bernie Sanders for a "Common Blueprint for an International New Deal", including a "progressive New Bretton Woods". Varoufakis has explicitly endorsed Keynes's original 1944 proposal. In the 4 May 2016 *Guardian*, Varoufakis wrote that "Keynes was ahead of his time"; in the 13 September 2018 *Guardian*, he wrote, "Our Progressive International must propose an International Monetary Clearing Union, of the type John Maynard Keynes suggested during the Bretton Woods conference in 1944." Varoufakis has called for a "global green transition fund" to be facilitated by this "Keynesian Bretton Woods" system. This also coheres with Carney's position as a central figure in the creation of a new green investment bubble, as reported in "The City of London's new green bubble" (*AAS*, 21 Aug.), yet another effort to prop up the existing system, if in a new guise.

Carney courts Facebook

After Bank of England head Mark Carney praised Facebook's planned "Libra" cryptocurrency as a potential model for a new global digital reserve currency, a quick review of how the proposal advances the dangerous concentration of economic and political power is in order.

An article by Graham Steele published in the 12 August *Washington Post* exposed the inherent dangers of allowing a major social media player to operate what could soon become its own financial system. "Libra is only the latest example of a larger, more troubling trend", wrote Steele: "the gradual blurring of the line between finance and commerce that's taken place over the past few decades." Steele described the advent of industrial firms opening their own banks in the USA, with modern examples including GMAC and GE Capital. These firms can "take customer deposits without the same oversight that applies to most banks", wrote Steele, which is an attractive proposition, with "deposits a cheap source of funding" and government deposit insurance covering a percentage of any losses.

This was a minor part of finance until retailers like Walmart and Home Depot got in on the action, drawing the ire of community banks, consumer groups and unions, Steele reported. "Now Big Tech is looking to come through the door that Congress left open", with its 2010 *Wall Street Reform and Consumer Protection Act* ("Dodd-Frank") falling short of the kind of Glass-Steagall banking separation which would keep commercial banking separate from other forms of commercial activity and investment banking.

Facebook would be a threat to small banks, with its "outsize market power", given that it has some two billion clients and is "a company that gives them special insights, market advantages and the ability to influence non-financial business. This is why banks are supposed to keep the businesses that they own at arms' length through financial and management firewalls", wrote Steele.

Steele cites FDR's 3 January 1936 State of the Union address, in which he warned of the risks from "the domination of government by financial and industrial groups, numerically small but politically dominant".

Carney's move would propel this threat into an unthinkable dimension. In April, Carney flew to the USA to meet with Facebook founder Mark Zuckerberg. According to a 27 August *Daily Mail* article, Carney's staff had to adjust his schedule multiple times in order to get the meeting. In his Jackson Hole speech Carney declared, "it is an open question whether such a new Synthetic Hegemonic Currency (SHC) would be best provided by the public sector", implying that he may be thinking of Libra as *more than just a model* for a global reserve currency, perhaps considering Facebook a private provider!

Central banks to claim political mandate?

The US Federal Reserve's 22-24 August Jackson Hole summit marked a crunch point for central bankers attempting to put together a plan to rescue the collapsing global financial system. With tool boxes that no longer function in today's changed environment, more and more extreme proposals are arising. Following the BlackRock proposal for monetary "regime change" (*AAS,* 28 Aug. 2019) which would give central banks the scope to determine the fiscal policy (taxation and spending) of governments, and Bank of England Governor Mark Carney's proposal for a world currency (p. 7), a former central banker has now called for central banks to intervene in elections.

If governments yield an inch on any of these battlegrounds, central banks will not only take a mile, they will take control of government. Private, unelected bankers—whose domain is demonstrably one of profit gouging, shareholder value and outright thievery—would determine national policies. As US depression-era President Franklin Delano Roosevelt, who in the face of fighting the Nazis defined fascism as ownership of government by a private power, said in his 1938 Message to Congress on Curbing Monopolies, the power of government must "not be vested in any private group or cartel, however benevolent its professions profess to be." (*AAS,* 28 Aug.)

Central banks are not happy that US President Donald Trump is telling the US Fed what to do, let alone that he wants to determine interest rates and the US dollar exchange rate, in an effort to impact trade negotiations and economic policy.

In a 29 August Bloomberg column, one of the world's foremost central bankers, Bill Dudley, urged Fed officials to declare they would not "bail out an administration that keeps making bad choices on trade policy, making it abundantly clear that Trump will own the consequences of his actions." Dudley is former head of the New York Fed (2009-18), former vice chairman of the Federal Open Market Committee, ex-member of the Bank for International Settlements Board of Directors, and former chief economist for Goldman Sachs.

Dudley argued that the Fed should not blindly follow convention by cutting interest rates in response to a slackening economy caused by Trump's trade war, or it might make matters worse. Refusing to play into Trump's policy game would reassert Fed independence and hurt his chance of re-election.

"Central bank officials face a choice: enable the Trump administration to continue down a disastrous path of trade war escalation, or send a clear signal that if the administration does so, the president, not the Fed, will bear the risks—including the risk of losing the next election."

That may sound reasonable, but then Dudley added: "There's even an argument that the election itself falls within the Fed's purview. After all, Trump's re-election arguably presents a threat to the US and global economy, to the Fed's independence and its ability to achieve its employment and inflation objectives. If the goal of monetary policy is to achieve the best long-term economic outcome, then Fed officials should consider how their decisions will affect the political outcome in 2020." In other words, the central bank should intervene in the election and determine the outcome!

According to the 27 August *Wall Street Journal*, current Fed officials rejected Dudley's call. Nonetheless, the direction central banks are taking is headed right down the pathway Dudley has illuminated.

How the 'free market' co-opts the power of the state

In a 24 August article for Left Foot Forward titled "What does the 'free market' really mean?", British Professor of Accounting Dr Prem Sikka ravaged the pretence of the free market economy, by showing how it is manipulated by its rabid proponents in government, such as key members of Boris Johnson's cabinet and close circles—Kwasi Kwarteng, Priti Patel, Dominic Raab, Chris Skidmore and Liz Truss—when it suits them. While it is supposed to be the bastion of the free market, the finance sector in particular reveals "that free markets are an ideological mirage: capital is devoted to mobilising the state", Sikka wrote.

The finance industry, "the supposed bastion of the free market and a major beneficiary of the 1980s deregulation under Thatcher", abused its power to rip off consumers, said Sikka. But when the global financial crisis happened in 2008, the government bailed out the rapacious banks that had caused it by looting the nation. The people then had to pay for the bailout with austerity, wage freezes and higher taxes.

Finance has dictated terms for its accomplices. "The colonisation of the state has been the making of the accounting firms", Sikka continued. "There are no state-guaranteed markets for engineers, scientists or mathematicians—but the state requires that company accounts be audited by accountants belonging to select few trade associations.

"In turn, the accounting firms have long used the statutory audit as a stall for selling lucrative consultancy services. In a free market, suppliers of faulty goods/services are supposedly driven out of business, but that is rarely the case in the auditing industry which routinely produces duff audits. It is hard to think of any stakeholder group which routinely demands duff audits.

"Accounting firms can enter almost any other business but have persuaded the state to erect barriers for others to enter the audit industry. The UK and the EU rules require that any organisation offering statutory auditing service must be under the control/ownership of accountants who are licenced to carry out audits. In such an arrangement the 'system of exchange where the price of goods and services is determined by supply and demand' no longer holds", said Sikka.

"It is not just the finance and accounting industries, but numerous others have also mobilised the state to erect barriers and collect economic rents", Sikka concluded. "The rhetoric of free markets is primarily used to oppose social responsibility and public accountability. Citizens have every right to demand the end of the state's protections for exploitative industries—and that the recipients prioritise social welfare above their narrow economic interests."

Indeed it was the same selective process that made the City of London (and its creature Wall Street) the global financial power-centre that it is today. Examples include the creation of the "Eurodollar" offshore currency market in the 1950s, to destroy the Bretton Woods system (<u>"BlackRock's monetary 'regime change' is fascism"</u>, *AAS,* 28 Aug.); the establishment of tax havens in British dominions and overseas territories, deliberately outside of the regulatory architecture; and keeping the growing derivatives bubble off banks' balance sheets, while exempting those derivatives from bail-in laws—laws which themselves apply the power of the state to assist "market" players, namely banks that need rescuing, at the expense of their customers.