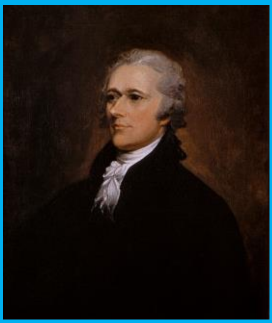
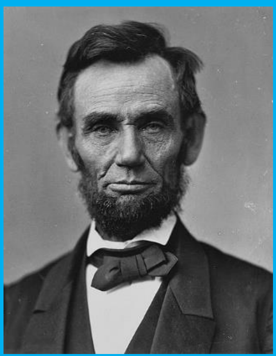
The 'American System' of national economy for the general welfare



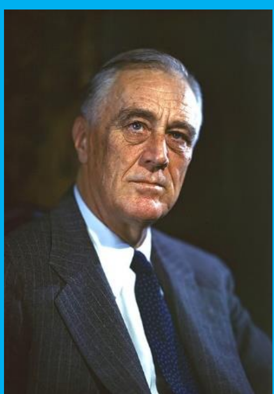
Alexander Hamilton



Abraham Lincoln

Original greenback, featuring Alexander Hamilton

King O'Malley



Franklin D. Roosevelt

50 years since 15 August 1971

Who ended the Bretton Woods system and opened an age of infinite speculation?

The floating currency exchange-rate system, instituted with the end of the Bretton Woods agreements 50 years ago, decoupled finance from the real economy throughout the trans-Atlantic financial sector and its appendages, Australia included. Many financial woes of nations and much suffering of people stem from the decisions made then. The people who wrecked Bretton Woods took aim against the post-war order US President Franklin Roosevelt had envisioned, in which sovereign nation-states could each and all develop economically for the benefit of their populations.

Unique research and insights into who the wreckers were and how they operated is presented in the six articles from the *Australian Alert Service* assembled here.

> "The takedown of Bretton Woods and the rise of financial speculation", *AAS*, 28 July 2021
>
> "Destroying Bretton Woods: The rise of the Neoliberals", *AAS*, 4 Aug. 2021, reviewing Nicholas Shaxson's 2018 book *The Finance Curse: How Global Finance is Making Us All Poorer*
>
> "BIS: The sleeper cell that destroyed Bretton Woods", *AAS*, 11 Aug. 2021, a look at the Bank for International Settlements, the central bankers' bank the original Bretton Woods conference failed to dissolve

From a two-part Australian Almanac in the *AAS* of 8 and 15 Sept. 2021, "An age of infinite speculation: Who wrecked Bretton Woods, and why" (8 and 22 Sept. 2021):

> "The creation of the worldwide casino", excerpted from our 2016 pamphlet *The British Empire's European Union: A Monstrosity Created by the City of London and Wall Street*
>
> "Two varieties of monetarism: the Keynesian and 'Austrian' foes of real economic progress", by Allen and Rachel Douglas, revealing the clique that pushed through "floating exchange rates" in the 1970s
>
> "The early economic forecasts of Lyndon LaRouche", by *EIR* magazine editor Paul Gallagher, an edited transcript of his presentation to a conference on the 50th anniversary of the end of Bretton Woods

The New York Times

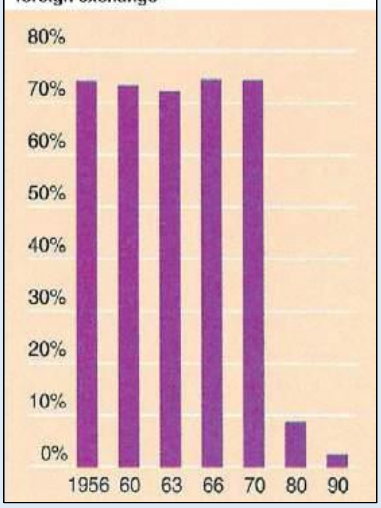
NIXON ORDERS 90-DAY WAGE-PRICE FREEZE, ASKS TAX CUTS, NEW JOBS IN BROAD PLAN; SEVERS LINK BETWEEN DOLLAR AND GOLD

Hate Pursues British Troops in Ulster

Highlights of Nixon Plan

With the end of the Bretton Woods system in 1971, the financial sector was decoupled from real production. The percentage of foreign exchange transactions (in which one currency is converted to another) associated with trade in real goods plunged and currency speculation skyrocketed.

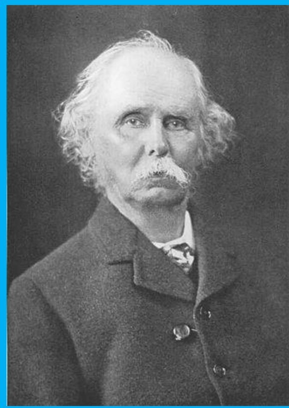
Fig. 1. Mercantile trade as percentage of foreign exchange



A special report from the *Australian Alert Service*

Monetarism for financiers' profit and power

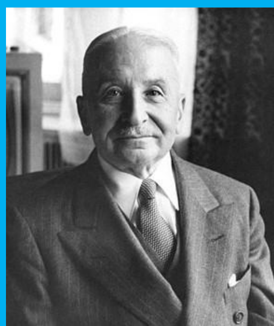
The 'neoclassical' Cambridge clique



Alfred Marshall, foe of Lincoln's greenback credits

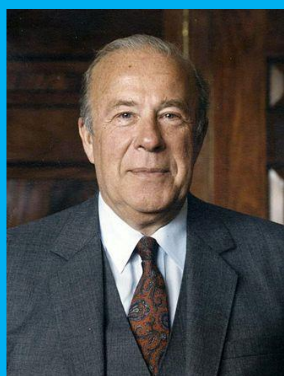
J.M. Keynes

The 'Austrian' school



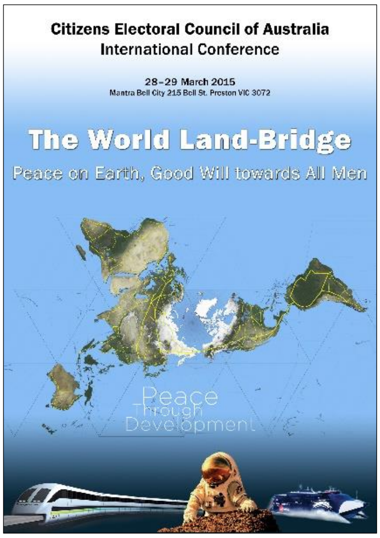
Ludwig von Mises

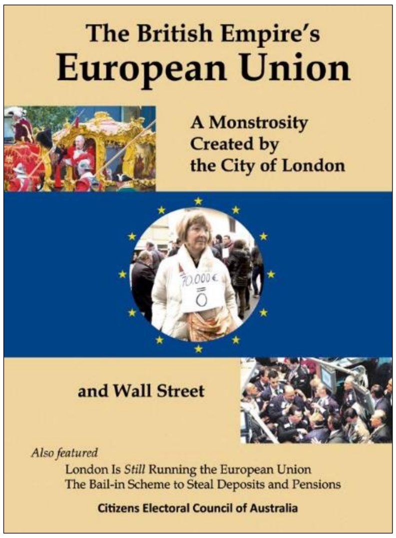
Arthur Burns



George Shultz

Citizens Party (ACP) publications for further reading





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Australian Alert Service

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The takedown of Bretton Woods and the rise of financial speculation

By Elisa Barwick

Fifty years ago on 15 August 1971 a key part of the anti-colonial legacy of US President Franklin Delano Roosevelt was scrapped. That legacy was the framework of a new post-war financial order, constructed at the United Nations Monetary and Financial Conference held at Bretton Woods, New Hampshire, USA, on 1-22 July 1944, commonly known as the Bretton Woods conference.

Franklin Roosevelt with Winston Churchill at Casablanca, French Morocco, 1943. Photo: Roosevelt House

The International Monetary Fund and World Bank (the International Bank for Reconstruction and Development) were formed to assist nations to balance international payments and stabilise exchange rates, as well as making long-term credit available for development. According to the final communiqué of the conference, the new organisations were designed to "facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy".

Roosevelt's intention was to usher in a new financial order, the primary focus of which was real economic growth and development, to pull backwards nations out of poverty. He was up against the powerful British delegation, backed by the City of London, with British Treasury advisor John Maynard Keynes representing an Empire not quite ready to hand over control of its dominions. Of the 44 nations present, only the UK opposed FDR's vision for Bretton Woods—the British delegation had its own ideas such as a global currency, fortunately rejected by the other nations.

The final agreement established a system of fixed currency exchange rates, relative to the US dollar which was pegged to gold, in order to ensure a stable international trading system and prevent currency speculation. Institutions and regulations to uphold the agreed order were established. Under the agreement a US citizen or institution could not maintain an account outside of the United States in which dollars were deposited, unless it could document that it was for the purpose of settling trade accounts. Banks could purchase foreign currency to transact trades for their clients, such as long-term investments, but could not take deposits in foreign currencies. Countries utilised capital controls to regulate the inflow and outflow of investment capital.

Although it didn't live up to all his expectations, FDR effectively constrained the global banking mafia with his regulatory framework. Following Roosevelt's death, however, no time was wasted in dismantling his vision.

On 15 August 1971, US President Richard Nixon delivered a dramatic 18-minute national television address in which he announced: the US dollar would no longer be linked to gold; a floating exchange rate system would replace the existing fixed exchange rate international order; and, a temporary wage and price freeze would be instituted in the USA, which quickly became the basis for drastic austerity measures.

Nixon couched these measures as a means to rein in financial speculation against the dollar, but they in fact opened the floodgates to the most massive, lengthy speculative binge in the history of mankind, coupled with physical economic collapse, which continues to this day. Nixon was advised on this decision by George P. Shultz (1920-2021), later secretary of state to President Ronald Reagan. Shultz was an ardent admirer of the deregulation agenda of British Prime Minister Margaret Thatcher and championed Chile's brutal austerity policies under Augusto Pinochet devised by Chicago University economists.

But the process of dismantling the Bretton Woods architecture had begun almost as soon as it came into existence. The City of London created the modern offshore banking system, setting up an *unregulated space outside of the sovereign jurisdiction of any nation* in the late 1950s—the so-called "Eurodollar" markets (the trade of dollars and dollar instruments outside of the USA). Bankers coaxed money out of Bretton Woods-regulated markets by offering higher interest rates and loopholes allowing US banks to circumvent the strict rules. The Eurodollar market unleashed a neo-liberal onslaught against the productive economic sector, opening a new pathway for currency speculation, cross-border money flows to pick up speculative profits and development of an extensive network of offshore tax havens facilitating criminal activity. Liberalisation of financial markets coincided with similar liberalisation, deregulation and privatisation of critical productive economic functions. ("How London's Euromarket killed Bretton Woods", *AAS*, 19 Sept. 2018.)

The Glass-Steagall factor

The repeal of the US Glass-Steagall law in 1999, arranged by the City of London and Wall Street banks, destroyed the vestiges of the Bretton Woods system.

Continued page 15

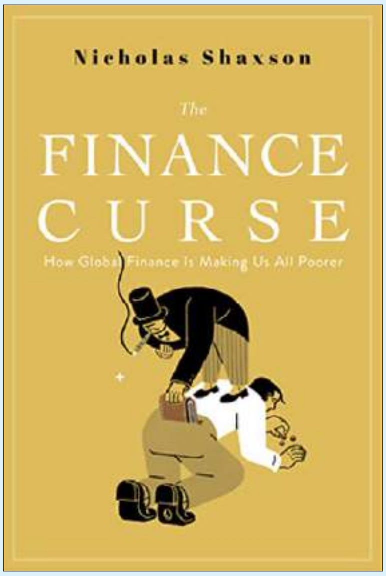
The law, a reaction to the 1929 financial crisis, had been brought into being by FDR in 1933. The official repeal of US banking separation had been preceded by similar action in Europe starting at the end of 1989. That in turn had been preceded by the City of London's creation of the Eurodollar market.

Lord Nigel Lawson, who was Thatcher's Chancellor of the Exchequer when she deregulated financial markets starting in 1986, told BBC radio in 2010 that London was determined to be the global centre of finance as the world moved to a global marketplace. The City of London, therefore, "could no longer be based … on the capital put in by a certain number of wealthy individuals. It had to be much bigger than that—which meant having corporate capital in, and allowing overseas capital in".

This spelt the end of the traditional separation of bank activity. Lawson, now an advocate for the reintroduction of Glass-Steagall (p. 10), explained that bankers wanted to "get their hands on the deposits" in order to leverage them in the drive for bigger financial profits from high-risk activity. Former Citibank head John Reed confirmed this, telling the BBC show that big global financial institutions wanted to get their hands on public capital to build their empires. They needed Glass-Steagall gone. (Reed, who campaigned for the end of Glass-Steagall, is now also an advocate for its return.)

Scheming by US banks to destroy Glass-Steagall ratcheted up in December 1984 when JP Morgan issued an internal document headlined "Rethinking Glass-Steagall". The report argued that there was a fierce appetite for new financial services which was driving "a revolution in the financial services market" and demanded an end to the "artificial barriers" created by Glass-Steagall. Alan Greenspan was a director of JP Morgan at the time and led the campaign through the intervening years until the FDR-era banking laws were officially removed when he was at the helm of the US Federal Reserve. ("NY Fed's refutation of Glass-Steagall backfires", *AAS*, 9 Aug. 2017.)

Destroying Bretton Woods: The rise of the Neoliberals



Nixon announces the end of the Bretton Woods monetary framework, 15 Aug. 1971. Right: Nicholas Shaxson's book.

In his 2018 book *The Finance Curse: How Global Finance is Making Us All Poorer*, Nicholas Shaxson revealed the hijacking of the global economy by high finance. The doctrines of modern economic neoliberalism were accelerated as a counterreaction to the imposition of the highly regulated Bretton Woods post-World War II financial order. ("The takedown of Bretton Woods and the rise of financial speculation", *AAS*, 28 July.)

Fifty years ago, on 15 August 1971, US President Richard Nixon took the US dollar, the reserve currency that anchored the fixed-exchange-rate system, off its peg to gold, spelling the end of Bretton Woods. A stable of neoliberal economists had their alternative prescriptions ready to go, to put money and finance back in control.

Shaxson is the author of the definitive exposé of offshore tax havens, the 2011 book *Treasure Islands: Tax havens and the men who stole the world*, which explores the City of London's post-war transformation into a global financial empire, with accomplices such as Wall Street. In his more recent book he describes how economies the world over were steadily "re-engineered towards serving finance", leaving other parts of the economy struggling to "survive in its shadow".

Shaxson's description of the practical impact of the Bretton Woods agreement, signed by 44 nations in July 1944, illustrates why bankers were enraged at being hemmed into the new order:

"Bretton Woods was a remarkable system and almost unimaginable today. Cross-border finance was heavily constrained, while trade remained fairly free. So cross-border financial flows were permitted if they were to finance trade or real investment or other specified priorities, but cross-border speculation was not. Exchange rates were more or less fixed against the dollar, which in turn was anchored to gold. So if you wanted to import, say, some agricultural machinery or go on holiday to France, you could take your pounds and the relevant import or travel documents to your bank or central bank, and if the bank was satisfied that it was a bona fide purchase or trip it would take your pounds then arrange for the equivalent amount of dollars or French francs to be paid to the appropriate accounts overseas or paid to you in cash. But if you took a million pounds to the Bank of England and asked it to provide you with the equivalent in Deutschmarks because you thought you could get a better interest rate in a German bank, you would be told to get lost. The overall aim of this vast international administrative machinery was, as US Treasury Secretary Henry Morgenthau declared, to 'drive the usurious moneylenders from the temple of international finance'.

"The Bretton Woods system was leaky and troublesome but it held together for roughly a quarter-century after the Second World War. With finance bottled up, governments felt free to act in their countries' best interests, without fear that all the money would flee overseas. Taxes for the wealthy were high, sometimes very high…. Domestic financial regulations were amazingly robust too: the New Deal in the United States, combined with vibrant anti-monopoly laws, split up mega-banks and hedged bankers with all kinds of restrictions. Massive government-led technological developments during the war were also unleashing waves of industrialisation, and governments continued to invest aggressively in research considered too risky for the private sector.

"Amid all this massive, coordinated government intervention and in some cases astonishingly high tax rates, economic growth in both rich and poor countries was collectively higher—much, much higher during this period than in any other age of human history, before or since. Western Europe for instance grew at an average 4.1 per cent a year during 1950-73. Trade flourished, even as speculative capital flows were repressed. The era is now often known as the Golden Age of Capitalism. As growth powered ahead, economic inequalities fell, inflation was tamed, debts shrank, and financial crises were small and infrequent. This was the American Dream, but on a global scale."

Infant industries were nurtured, health services and welfare provisions for the poor blossomed, labour unions grew strong.

"A counter-revolution determined to shackle governments and unleash the full power of money and finance again was already well under way", wrote Shaxson. That fightback, he continued, came in the form of neoliberalism, an outgrowth of eighteenth-century classic liberalism. In terms of its practical effects, Shaxson elaborated, neoliberalism "has meant financial deregulation, privatisation and globalisation actively promoted and protected by governments".

The starting point of neoliberalism, wrote Shaxson, "was that government inevitably amasses ever more

Continued page 11

Destroying Bretton Woods: The rise of the Neoliberals

From page 12

power and heads towards tyranny. This fear was understandable at the time. The Nazis had almost conquered Europe; Soviet totalitarianism loomed, and the Thought Police from George Orwell's hit novel *Nineteen Eighty-Four*, published in 1949, hung like a leering spectre over Western culture. [Austrian economist Friedrich von] Hayek, now recognised as the founder of neoliberalism, began with the neoclassical notion that competition in markets delivered efficiency and collective benefits for all. Then he took a giant leap of faith, and argued that this conclusion could be, and even should be, true not just of markets and commercial exchange, but of all sorts of other aspects of life. What if you could re-engineer society and laws into a giant market or set of markets, he wondered, using government scissors to cut the social fabric into separate fragments, then pitching these fragments into competition with each other? The simplest example of this is privatisation, where you sell off state assets to the private sector in the hope that they will compete and become more efficient. If you can achieve this, Hayek argued, then the market can become a tool for finally taming government, the handmaiden of tyranny. …

"Hayek's most famous book, *The Road to Serfdom*, laid this all out. Competition and the price system were the only legitimate arbiters of what was good and true, he said. And this soon became a neoliberal mantra. Cut taxes, deregulate, privatise and launch all these pieces into competition with each other, then let it all rip. Not just banks or companies, but also health services, universities, school playing fields, environmental protection bodies, sexual abuse referral services, regulators, lawyers, shell companies and the kitchen sink: all of it could be, should be, must be, shoehorned into the same competitive framework, to be sorted and judged by the one true test of virtue: the test of the market."

Within this framework, society itself becomes a kind of universal market, Shaxson wrote, and "Government is re-engineered as an agent for making markets penetrate as deep into society as possible."

BIS: The sleeper cell that destroyed Bretton Woods

By Elisa Barwick

The Bretton Woods financial system came to an end fifty years ago on 15 August, when US President Richard Nixon floated the US dollar, ending the global fixed exchange rate order. But the destruction of the Bretton Woods system had been put in motion as soon as the system commenced. In "The takedown of Bretton Woods and the rise of speculation" (*AAS*, 28 July) we examined the role of the City of London in undermining the new framework by creating a financial space outside of the regulated Bretton Woods system, where banks could speculate. In "Destroying Bretton Woods: The rise of the Neoliberals" (*AAS*, 4 August), we documented the expansion of neoliberal economic policy, including financial deregulation, privatisation and globalisation, to "white-ant" the Bretton Woods system. This week, we look at another vital factor: the parallel creation, in the wings, of a transnational financial architecture by the Bank for International Settlements, possibly due to the failure to implement a motion to shut down the banking agency passed at the 1944 Bretton Woods conference.

BIS headquarters in Basel, Switzerland, a veritable fortress. Photo: Twitter/BIS

The dissolution of the Bank for International Settlements after WWII was no less important than removing Hitler's Nazi Party machine from any position of influence, and US President Franklin Delano Roosevelt, who convened the Bretton Woods conference, knew it. The bankers' bank was not only a vital accomplice to Nazi Germany, it represented the very kernel of fascism. It was the brainchild of private and central bankers whose dream was to position "independent" financial agencies over and above elected governments; Mussolini's Italian dictatorship had been one of their first experiments.

The cockroach of banks

The BIS was established in 1930, nominally to facilitate reparations payments owed by Germany and other nations after World War I. The governor of the private Bank of England in 1920-44, Montagu Norman, was its key architect, working with soon-to-become Nazi finance minister, German Reichsbank President Hjalmar Schacht, who designed the Nazi economic policies of brutal austerity and slave labour. In what was a first for an international financial organisation, the BIS was founded by international treaty, signed by governments at The Hague on 20 January 1930. Founding members were the central banks of Britain, France, Germany, Italy, Belgium and a consortiums of banks from Japan and the USA. Today the BIS directs the banking policy of nations across the world. The Financial Stability Board it hosts coordinates national financial authorities and their regulatory policies, such as the notorious "bail-in" regime, to save collapsing banks with depositors' money.

The problem with liquidating the BIS is that it had been built to be virtually indestructible. Those who drew up the BIS statutes ensured it was protected by both the international treaty under which it was established, and by the corporate law of Switzerland, where it was headquartered. To initiate liquidation procedures a three-quarters majority vote of member nations at a BIS General Meeting was required.

The following excerpt from *Tower of Basel*, by Adam Lebor, reveals the extraordinary status of the bankers' bank.

At BIS gatherings, "All the governors … are assured of total confidentiality, discretion, and the highest levels of security. The meetings take place on several floors that are usually used only when the governors are in attendance. The governors are provided with a dedicated office and the necessary support and secretarial staff. The Swiss authorities have no jurisdiction over the BIS premises. Founded by an international treaty, and further protected by the 1987 Headquarters Agreement with the Swiss government, the BIS enjoys similar protections to those granted to the headquarters of the United Nations, the International Monetary Fund (IMF) and diplomatic embassies. The Swiss authorities need the permission of the BIS management to enter the bank's buildings, which are described as 'inviolable'.

"The BIS has the right to communicate in code and to send and receive correspondence in bags covered by the same protection as embassies, meaning they cannot be opened. The BIS is exempt from Swiss taxes. Its employees do not have to pay income tax on their salaries, which are usually generous, designed to compete with the private sector. … The bank's extraordinary legal privileges also extend to its staff and directors. Senior managers enjoy a special status, similar to that of diplomats, while carrying out their duties in Switzerland, which means their bags cannot be searched (unless there is evidence of a blatant criminal act), and their papers are inviolable. The central bank governors traveling to Basel for the bi-monthly meetings enjoy the same status while in Switzerland. All bank officials are immune under Swiss law, for life, for all the acts carried out during the discharge of their duties. The bank is a popular place to work and not just because of the salaries. Around six hundred staff come from over fifty countries. The atmosphere is multi-national and cosmopolitan, albeit very Swiss, emphasising the bank's hierarchy. Like many of those working for the UN or the IMF, some of the staff of the BIS, especially senior management, are driven by a sense of mission, that they are working for a higher, even celestial purpose and so are immune from normal considerations of accountability and transparency.

Continued page 15

BIS: The sleeper cell that destroyed Bretton Woods

From page 16

"The bank's management has tried to plan for every eventuality so that the Swiss police need never be called. The BIS headquarters has high-tech sprinkler systems with multiple back-ups, in-house medical facilities, and its own bomb shelter in the event of a terrorist attack or armed conflagration. The BIS's assets are not subject to civil claims under Swiss law and can never be seized.

"The BIS strictly guards the bankers' secrecy. The minutes, agenda, and actual attendance list of the Global Economy Meeting or the ECC [Economic Consultative Committee] are not released in any form. This is because no official minutes are taken, although the bankers sometimes scribble their own notes. Sometimes there will be a brief press conference or bland statement afterwards but never anything detailed. This tradition of privileged confidentiality reaches back to the bank's foundation. …

"What, then, does this matter to the rest of us? Bankers have been gathering confidentially since money was first invented. Central bankers like to view themselves as the high priests of finance, as technocrats overseeing arcane monetary rituals and a financial liturgy understood only by a small, self-selecting elite.

"But the governors who meet in Basel every other month are public servants. Their salaries, airplane tickets, hotel bills, and lucrative pensions when they retire are paid out of the public purse. The national reserves held by central banks are public money, the wealth of nations. The central bankers' discussions at the BIS, the information that they share, the policies that are evaluated, the opinions that are exchanged, and the subsequent decisions that are taken, are profoundly political. Central bankers, whose independence is constitutionally protected, control monetary policy in the developed world. They manage the supply of money to national economies. They set interest rates, thus deciding the value of our savings and investments. They decide whether to focus on austerity or growth. Their decisions shape our lives."

Roadblocks at Bretton Woods

Politics was another major factor in the indestructibility of the BIS. The level of privilege and secrecy at the BIS made it an ideal network for disseminating wartime intelligence. Acting as a "neutral" back channel between Allied and Axis powers, it was harnessed by the American wartime intelligence agency, the Office of Strategic Services (OSS). The American President of the BIS (1940-46), Thomas McKittrick, worked closely with OSS Switzerland head (and later CIA Director) Allen Dulles. BIS staff including McKittrick had privileged interchanges with German officials which were highly valued by Dulles.[1]

Allen and his brother, John Foster Dulles, were closely associated with Brown Brothers Harriman, America's oldest (and then-largest) private investment bank, which was among a number of large banks that were channelling funds to the Nazi party.[2] Montagu Norman worked for the Brown Brothers side of the operation in New York and in the UK (Brown, Shipley & Co.).

The BIS was a crucial conduit for the international money flows that allowed Germany to continue to fund its war machine once it was otherwise cut off. It facilitated transfers of gold that the Nazis plundered from the countries they invaded, and conducted foreign exchange deals on their behalf. It honoured Nazi transactions right through to the end of the war. And before the war ended, BIS personnel were assisting Nazi Party officials, bankers, and corporations to survive in the post-war era.

The role the BIS had played in assisting the Nazis was well understood. US Treasury Secretary and President of the Bretton Woods Conference Henry Morgenthau and senior Treasury department official Harry Dexter White, who led the American delegation, wanted the BIS abolished.

The Norwegian delegation introduced a motion to liquidate the BIS: "Be it resolved that the United Nations Monetary and Financial Conference recommends the liquidation of the Bank for International Settlements at Basel. It is suggested that the liquidation shall begin at the earliest possible date and that the governments of the United Nations now at war with Germany appoint a Commission of Investigation in order to examine the management and the transactions of the Bank during the present war."

Although no delegation publicly defended the BIS, the British Foreign Office advised its delegates it would be "improper" to liquidate the institution at the conference. Behind the scenes the New York Federal Reserve, sections of the US State Department, Wall Street banks, the Bank of England, the British Treasury and Foreign Office sprang into action in the bank's defence.

A further resolution, specifying that no country could join the IMF unless it had "taken the necessary steps to foster the liquidation of the BIS", was proposed by a US delegate. The head of the British delegation, John Maynard Keynes, threatened to leave the conference if it was not withdrawn. He told Morgenthau that Britain would not participate in the new Bretton Woods institutions, forcing the Americans to back down.

The resolution that was finally adopted stated simply: "The United Nations Monetary and Financial Conference RECOMMENDS: The Liquidation of the Bank for International Settlements at the earliest possible moment." Because no date for shutdown was provided and no conditions were given, the bank's supporters were happy with the compromise.

Biding its time until the heat and attention diffused, the BIS quietly got on with its operations. Always loyal central banks on the BIS board managed to convince sometimes reluctant governments to maintain participation in the institution. It didn't help that FDR died in April 1945 and Morgenthau lasted only three months in the new administration of Harry S Truman. By 1947 the Federal Reserve was advising the US Treasury to stop pressing for BIS liquidation, and in early 1948 the US government issued a statement that it would no longer insist on implementation of the liquidation resolution. Shortly thereafter, when the BIS coughed up an agreed volume of looted gold, post-war agencies investigating Nazi plunder dropped further claims against the bank, and the BIS's blocked assets were freed by the US Treasury. The Bretton Woods resolution to liquidate the BIS was soon forgotten. Far from being dissolved, the BIS proceeded to make itself indispensable to governments with its statistics, analysis and annual reports, and eventually became a platform for international central bank coordination on a scale unforeseen even by its creators.

SOURCES

Tower of Basel: The shadowy history of the secret bank that runs the world, Adam Lebor, Public Affairs, 2013.

Central Bank Cooperation at the Bank for International Settlements, 1930-1973, Gianni Toniolo, Cambridge University Press, 2005.

1. Lebor, Ch. 8, "An arrangement with the enemy"
2. See excerpts from *George Bush: The Unauthorised Biography*, by Anton Chaitkin and Webster Tarpley (Progressive Press, 2004), Chapter II: "The Hitler Project", republished in "The Bush Family's Funding of Hitler", *Executive Intelligence Review*, 30 May 2008, online at larouchepub.com.

AUSTRALIAN ALMANAC Vol. 12 No. 26

An age of infinite financial speculation: Who wrecked Bretton Woods, and why

The next two Australian Almanacs continue our series of articles on the formal termination, 50 years ago, of the post-war Bretton Woods monetary system. The "floating" of the US dollar on 15 August 1971 and subsequent introduction of a floating exchange-rate system—with finance ever more decoupled from the real economy—throughout the trans-Atlantic financial sector and its appendages, including Australia and Japan, was a decisive turning point in recent world history.

Back-page feature articles by Elisa Barwick in the AAS *of 28 July, 4 August and 11 August 2021 have outlined the essentials of how the takedown of Bretton Woods opened the door to the rise of financial speculation and so-called "neoliberal" economics, which prioritises financial gains for those who can obtain them, over the general welfare of the population; and, to the current dictatorship over governments' financial affairs by the Bank for International Settlements (BIS), a supranational institution with fascist roots in the 1930s. These two Almanacs delve further into who engineered the 1971 shift, and why.*

What we report here is part of the history of what Old Labor in Australia termed "the Money Power". Its political dimension, called the Synarchy, involved the creation of mass fascist armies to pit people against each other and allow bankers to hold on to power at the top. The Synarchy's assault on Australian society in the 1930s, which aimed to stop Labor's drive for National Banking policies, was the subject of the April 2004 New Citizen *newspaper, headlined "Defeat the Synarchy—Fight for a National Bank". That history, as well as the invention of the modern doctrine of austerity—the sacrifice of people's living conditions for the sake of financial powers' interests—will be revisited and expanded in forthcoming Almanacs. Knowing it, is an essential weapon in today's renewed fight for National Banking and real economic development.*

The creation of the worldwide casino

The report below is excerpted, with revisions, from the chapter "Into the present: London still runs the EU", in The British Empire's European Union: A Monstrosity Created by the City of London and Wall Street, *a Citizens Electoral Council of Australia (now Australian Citizens Party) pamphlet published in 2016 and widely shared by friends of the CEC in the UK on the eve of the June 2016 referendum on the UK's leaving the EU—"Brexit". The full 54-page pamphlet is available for download at https://citizensparty.org.au/publications.*

In the 1930s US President Franklin Roosevelt, who had survived an early assassination attempt and then a military coup bid sponsored by Wall Street, had been determined to defeat those he called "the economic royalists", the Wall Street speculators who had manipulated the markets before and during the Great Depression. FDR envisioned a post-war order of sovereign nation-states, each and all developing economically for the benefit of their populations, to be guaranteed by agreements among the Big Four: the United States, the United Kingdom, the Soviet Union and China, which would collaborate under the aegis of the new United Nations Organisation. The great powers would assist the economic development of the former colonies of the British, French, Dutch and other empires. When Roosevelt presented this vision ("the Four Freedoms") to Churchill during 1941 negotiations for the Atlantic Charter at Newfoundland in 1941, that raving imperialist almost had a stroke (as reported by FDR's son and aide Elliott Roosevelt in *As He Saw It* [New York: Duell, Sloan and Pearce, 1946]).

The war-economy mobilisation to defeat fascism in the Second World War marked a return of productive government credit-creation for real economic development not only in the United States, but also in other countries where these traditional "American System" or "national economy" methods were applied—such as in post-war Japan and by the *Kreditanstalt für Wiederaufbau* (Reconstruction Credit Institution) in Germany of the 1950s "economic miracle".

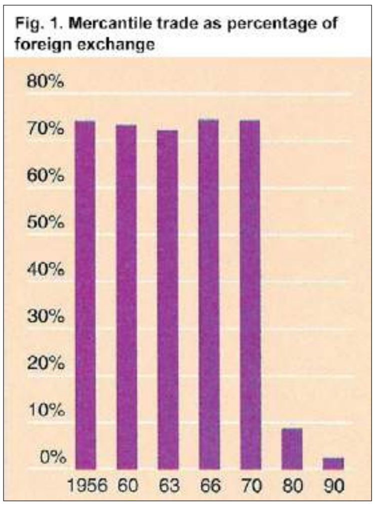
The City of London is the heart of the modern British Empire, a mediaeval-style dictatorship of international finance. Photo: Wikimedia Commons/David Iliff

Nicholas Shaxson, whose *Treasure Islands: Tax Havens and the Men Who Stole the World* (London: Random House, 2011) chronicles the opposite process, the creation of today's system of huge offshore financial flows and the City of London's central role in it, wrote about the immediate post-war time: "It is hard to imagine those days now: an era when international bankers took a backseat and fumed impotently at politicians' mighty powers. Those few years after the Second World War were, in fact, the only time in several hundred years when politicians had any real control over the banking sector in Britain. … The Bretton Woods plan, for all its faults, was designed to tame the forces of international finance."

Central to the post-war order would be the accords on a monetary system for the world, struck at Bretton Woods, New Hampshire in 1944. Even after compromises resulting from clashes between the American delegation led by Treasury official Harry Dexter White, who represented Roosevelt's ideas, and the British group under the monetarist Lord Keynes, the Bretton Woods agreements anchored respect for national sovereignty upon a worldwide system of fixed exchange rates, allowing for fair trade and stable economic development, relatively free of the speculative ravages of the City of London and Wall Street.

But the London financiers and their Wall Street junior partners were not interested in being tamed. They launched "single Europe" political schemes, from Churchill's European Movement (1948), through several economic and defence unification projects, to the 1956-57 Treaties of Rome that formed the European Economic Community (Common Market). While national leaders such as France's President Charles de Gaulle battled them, these initiatives were pursued relentlessly by London financiers, who sought to extend their "informal empire" over the continent and beyond.

While Jean Monnet of France[1] and other friends of British finance pushed to form supranational political structures in post-war Europe, they also moved to create what has become today's globalised offshore money system. By the 1960s and 1970s, that process of financial market expansion took the upper hand over the post-war spirit of reconstruction, which had been shaken by the Cold War in the 1950s, and in the early 1960s was smashed by the murders of President John F. Kennedy and such figures as the Italian industrialist Enrico Mattei, and the political destabilisation of de Gaulle and of West German Chancellor Konrad Adenauer.



The chart shows the percentage of foreign exchange transactions (in which one currency is converted to another) associated with trade in real goods. After the end of the Bretton Woods system's fixed exchange rates in 1971, currency speculation skyrocketed and the financial sector was increasingly decoupled from real production. Source: *EIR*

The Eurodollar market

First came the creation of the unregulated, City of London-centred Eurodollar and Eurobond markets in the 1950s, led by City financier Sir Siegmund Warburg. Eurobonds are debt instruments denominated in currencies other than that of the issuing country. The term does not denote business operations taking place solely within Europe, nor should it be confused with the modern "euro" currency. Similarly, Eurodollars are US dollar-denominated deposits and transactions outside the United States, which initially circulated chiefly in Europe but soon became a global phenomenon.

This was the system of offshore currency trading that set the stage for the pound and dollar crises of the late 1960s, culminating in the end of the Bretton Woods arrangements, when President Richard Nixon was induced to terminate the dollar's peg to gold on 15 August 1971.

Warburg's biographer Niall Ferguson identified the Eurodollar market as the first step in the City's creation of the modern system of offshore tax havens and money laundering. "The very existence of the Eurodollar market in London", wrote Ferguson, "reflected the predisposition on the part of the British monetary authorities to allow the City to act as a centre for offshore finance. The [Bank of England's] position was one of tolerance in the interests of London's revival: 'However much we dislike hot money we cannot be international bankers and refuse to accept money.'" (*High Financier: The Lives and Time of Siegmund Warburg* [The Penguin Press, 2010].)

The post-1971 speculation-based floating exchange rate system, officially endorsed by France, Germany, Italy, Japan, the UK and the USA at their November 1975 Rambouillet summit, then began to earn its nickname—*casino mondiale,* the world casino. The UK acceded to the European Economic Community (EEC), the European Union's forerunner, in 1973.

The door had been flung open to an ever more speculative financial system. The financial sector was abruptly decoupled from physical economic processes **(Fig. 1).** The shift was typified by the emergence in the 1990s of derivatives trading on an unprecedented scale in international finance. The City of London is the world's centre for this activity, which consists in the trading of side bets on everything from commodities prices to currency values to the weather. The total so-called "notional value" of this trade (the amount of money associated with these bets) is estimated at well in excess of US$1 quadrillion in recent years, or two orders of magnitude greater than the gross world product of $78.28 trillion as of 2015. The involvement in derivatives speculation by transnational megabanks, such as London's "Big Six" and Australia's "Big Four", has continued to increase since the 2008 global financial crisis.

In the 1980s, the decade after Rambouillet, London took the lead in a worldwide wave of financial deregulation. This was the era of the "Big Bang" London market reforms, while in the United States the Federal Reserve began to exempt more and more derivatives trading from regulation, and to allow commercial banks to venture into types of financial activity long closed to them under Glass-Steagall banking separation, the 1933 law that had separated and protected normal commercial lending from speculative "investment" banking. Under intense pressure from Wall Street and the City of London, the US Congress fully repealed Glass-Steagall in 1999.

1. The career of Monnet, later known as "father of the European Union", was made in London as a kingpin of economic cartels set up for "world control of raw materials and commodities" during World War I. He pursued his dream of "world government" as an officer of the League of Nations until 1923, and protected Nazi business operations in the 1930s.

Two varieties of monetarism: the Keynesian and 'Austrian' foes of real economic progress

By Allen and Rachel Douglas

This article is excerpted from "The Financial Oligarchy's War against the Nation-State: The Case of the Long-Term Investors Club" (unpublished research memorandum, 2013). It uncovers the history of those who trained the ideologues and financial officials, who engineered the takedown of Bretton Woods.

The Lincoln revolution

President Abraham Lincoln's financial and economic policy revolution during the American Civil War (1860-65) was sweeping in its effects, because of what it unleashed in the United States and worldwide. Germany under Otto von Bismarck was the foremost exponent of the American System abroad, while Count Sergei Witte was guided by the same ideas in designing and constructing the Trans-Siberian Railway.

By issuing greenbacks to enable the Union to win the Civil War, Lincoln broke with the London-style financial policies of President Andrew Jackson (in office, 1829-37) and his controller and successor, President Martin van Buren (1837-41). Those two had taken down the Second National Bank of the

United States, thus wrecking the US economy and causing the Panic of 1837 and the strengthening of the British-backed slave plantation system in the South. That slave system only flourished because the previous process of national bank-financed industrialisation of the nation had been choked off, preventing it from becoming what it could and should have been, as Lincoln's economic adviser Henry Carey demonstrated. Subsequently, Wall Street refused to lend to Lincoln for prosecuting the war against the British-supported Confederacy.

Lincoln's top advisers—Henry Carey, Stephen Colwell, and others—who developed the greenback policy, were the central figures in the "Philadelphia group", the direct inheritors of Alexander Hamilton's credit-expansion ideas. The same group later convened the 1876 Philadelphia Centennial Exhibition, at which visitors from all over the world were amazed to see industrial achievements like stamping presses that were two stories high. There were miles and miles of exhibits of heavy machinery, more advanced than anything the British had at the time.

Foreign leaders who attended the exhibition naturally met with the Philadelphia group that had organised it. This group had a name: the Union League. During the Civil War, high society in Philadelphia had been mostly pro-Confederacy. These were interests such as the Barings combine, tied to the British East India Company, and the Drexel family. A group of patriots around Carey and Colwell founded the Union League as a counterweight to them.

Colwell, staunch advocate of a credit system, became the first president of the Union League. Lincoln's main adviser, Henry Carey, was a member. So was Jay Cooke, who was headquartered in Philadelphia and, between January and July of 1865, sold $853 million in US bonds to finance the Union in the Civil War.

It was with these men that the discussions on credit expansion took place at the Centennial event. That exhibition, and the discussions in and around it, set off shock waves worldwide. Bismarck, in a mid-1879 address to Parliament, announced that Germany would adopt protectionism, massive industrialisation, and the American System. His advisor was Wilhelm von Kardorff.

This policy of credit expansion in Germany, the United States and elsewhere came under attack from two places.

The anti-American System origins of Keynesianism

One was a UK group centred at Cambridge. Alfred Marshall, known as the founder of the Cambridge school of political economy, was the mentor of both John Maynard Keynes and Keynes's father before him.

Marshall had visited the United States in 1875, spending much of his time in Philadelphia. As reported by the younger Keynes (*Essays in Biography* [New York: W.W. Norton & Company, Inc., 1951]), Marshall boasted that after his Philadelphia discussions, no one knew as much about the American System of Economy as he. Nobody knew better that the sources of American power were protectionism and American System credit expansion. Marshall set out to design a system to counter the strategic threat posed by greenbacks.

Marshall started the modern British doctrine of "money". He asked: how do you measure "utility"—a notion originally cooked up by Venetian economists, then copied by British East India Company (BEIC) official Jeremy Bentham (also founder of the modern British Secret Intelligence Service, in the early 1780s). Following the Venetians, Bentham taught that man was merely an animal, motivated by the pursuit of pleasure and the avoidance of pain. His disciple John Stuart Mill, head of the BEIC's private, worldwide intelligence service, elaborated this "utilitarianism" doctrine of Bentham. Then Marshall, in 1891, wrote *Principles of Economy*, which was entirely about "money". It has been the Bible of British economics, to this day. Updating Mill's doctrine of utility, Marshall said that he approved of "utility" as a concept, but that one had to be able to *measure* it. And it was to be measured by money.[1]

Original greenback, featuring Alexander Hamilton

Cambridge economist Alfred Marshall attacked greenbacks, the US government-created paper currency issued during the Civil War to facilitate military production and national development.

Marshall's refrain was "Money … money … money"! His doctrine of money and currency explicitly opposed Lincoln's greenback approach, as he proclaimed that "the reckless inflation of credit" was the source of all troubles. Instead of the greenback system, Marshall proposed that America adopt what he called "symmetalism", a combined use of gold and silver as the sole basis for money.[2]

Marshall financed Keynes, and launched his career. He personally paid for Keynes to get a teaching post. Protégés of Marshall, John Maynard Keynes and his father were top economics wizards at Cambridge, the elite brain trust of the British Empire. Keynes, like his father, started academic life in formal logic, as a student of mathematician and imperialist Bertrand Russell. Russell called the younger Keynes's 1920 book, *A Treatise on Probability*, one of the most important books ever written.

The Austrian School

On the European continent, at around the same time as Marshall began his career in Britain, Carl Menger (1840-1921) was founding the so-called Austrian School of economics. In reality, it is not so much "Austrian", as Venetian; Venice had sponsored the Hapsburgs as early as in the 11th century. When Venice, hated for its usurious looting of half the world, came within a whisker of being wiped out militarily in the early 16th century by the League of Cambrai (an alliance of major European powers and the Papacy), a debate emerged within the Venetian oligarchy over how to respond to these strategic challenges. It resulted, in 1582, in the most dramatic faction fight in Venice's long history, the split between what became known as the *Nuovi* and the *Vecchi*, meaning the new

1. Wesley C. Mitchell, *The Backward Art of Spending Money and Other Essays* (New York: McGraw-Hill, 1937), quotes Marshall: "Money is the centre around which economic science clusters … it is the one convenient means of measuring human motive on a large scale. … This force of a person's motives … can be approximately measured by the sum of money which he will give up in order to secure a desired satisfaction".
2. Lincoln's economic development revolution, and the greenback policy that had powered it, were seriously undermined by the passage (1875) and implementation (1879) of the *Specie Resumption Act*, which tied US monetary policy to a British-style, anti-credit gold standard. Marshall's "symmetalism" intersected battles within the United States itself over various monetarist schemes ("bimetallism", the "free silver" movement) vs. the credit policies of the American System.

houses and the old houses of Venice, respectively.

The *Nuovi* moved to colonise Amsterdam and London, the Protestant maritime powers; Venice had built them up in the first place, and founded their respective central banks and East India Companies. The *Nuovi* were the wave of the future, but the *Vecchi* continued to exist, especially within the Habsburg Empire. For centuries, the main financiers of the Habsburg Empire were the Rothschild family, who moved to Britain only after the 1812-15 Congress of Vienna.

In 1871 the Austrian Carl Menger wrote *Principles of Economics*, aimed against the American experience of using government-issued currency to finance industry, agriculture and infrastructure. Menger was so beloved by the Habsburg Emperor, that he was appointed tutor to the Crown Prince for three years. His next book, likewise on economics but titled *Investigations on Method* (1883), was even more clearly a response to the Philadelphia Hamiltonian circle, and to Bismarck. In it, Menger directly or indirectly attacked American System economists Friedrich List, Henry Carey and von Kardorff. "The world consists only of our sensations", wrote Menger, echoing British empiricists and utilitarians from Bentham through Mill in their doctrine that man is just an animal.

The Habsburgs created a chair of political economy for Menger at the University of Vienna. Like Marshall in England, he wanted to turn the "utility" concept into *money*. He wrote *Contribution to the Theory of Capital* in 1888, and in 1892 a book called *Money* he expounded a "subjective theory of value", according to which money is the expression of subjective values from a utilitarian standpoint.

Menger's 1883 book founded the Austrian School, whose most famous members are Ludwig von Mises and, later, Friedrich von Hayek. Also influential in the USA were Joseph Schumpeter, with his theory of "creative destruction", and Fritz Machlup. These people surfaced during the post-World War II Marshall Plan.

The Austrian School in the USA

Disciples of the Austrian School of economics, such as future Federal Reserve Chairman Paul Volcker, Fed and Treasury official and Brown Brothers Harriman partner Robert Roosa, and anti-Bretton Woods fanatic Robert Triffin (a Belgian economist based in the USA), would lead the fight to take down the Bretton Woods system, a process that culminated in the 1971 US decision to end fixed exchange rates. Senior Austrian School figures were mentors to, among others, two key post-war economic policymakers: Arthur Burns, chairman of the US Federal Reserve System in 1970-78, and top US Establishment figure George P. Shultz, who, as director of the Office of Management and Budget and secretary of the Treasury in the early 1970s Nixon Administrations, pushed through the decision to end Bretton Woods.

Following Menger, two of the principal figures of this school were Eugen von Böhm-Bawerk (1851-1914) and, as noted, Ludwig von Mises (1881-1973). Von Böhm-Bawerk, as Austrian minister of finance in the 1890s, famously hated infrastructure. He wrote a 1,200-page, multi-volume work called *Capital and Interest*, of which the theme was money, money, and, again, money. His student von Mises taught at the University of Vienna for 20 years, 1913-34.

In the 1920s von Mises set up the Austrian Institute for Business Cycles Research. Out of this Venetian-Austrian school came the notion of business cycles as a periodic, long-wave process. Their argument is essentially that credit-extension (they use the term "extension of credit"), when overdone, leads to a certain point where there's too much capital invested, and if credit is extended any further, the result is business cycles and crises.

From the outset, they argued against credit expansion, which they said causes overinvestment, which, in turn, causes economic slowdown and business cycles. What needed to be done, they claimed, was that when an "evaluation" was made that the full investment potential of existing capital had been reached, interest rates should be raised and credit expansion reined in, to prevent a business-cycle downturn. It is somewhat analogous to Karl Marx's "overproduction" thesis.

Von Mises taught at New York University in 1945-69. His 1927 book *Liberalism* said that fascism had saved civilisation and deserved eternal honour for doing so, but that it could be only a temporary solution. The reason was that fascism made use of the state and nationalism leads to industry, if only for a war build-up, whereas these financier spokesmen had a typical Venetian perspective of going back to the pre-industrial Middle Ages.

One of Von Mises's direct students was von Hayek, who founded the Mont Pelerin Society with him. Schumpeter, who studied under von Mises in a private, bi-weekly seminar for his prize students, was another, as were Oskar Morgenstern, of Morgenstern and von Neumann fame,[3] and Machlup, who became crucial in taking down Bretton Woods and getting rid of fixed exchange rates.

One of the most important Americans trained by these professors was Wesley Clare Mitchell, who twice went to Vienna to study: in 1897, and again in 1912, when he was in von Mises's class. After his Vienna studies, Mitchell wrote his doctoral dissertation at the University of Chicago, an outpost of this group, and brought it out as a book titled *A History of the Greenbacks*. His second book was *Gold Prices and Wages under the Greenback Standard*. In these and other writings, Mitchell attacked Lincoln's greenbacks.

Mitchell's magnum opus, *Business Cycles*, came out in 1913, the year Mitchell also, under the supervision of Paul Warburg, helped to draft the legislation to establish the US Federal Reserve System (the American central bank) as a vehicle for private bankers—the Fed's owners—to control the US economy.[4] In 1923 the titans of Wall Street, led by the Kuhn Loeb, Warburg, and Lazard investment banks, financed Mitchell to set up the National Bureau of Economic Research, as basically an American arm of the Austrian Institute for the Study of Business Cycles. To this day, the NBER is the biggest, most authoritative economic research institution in the United States.

Continuation next issue

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3. John Von Neumann and Morgenstern published *Theory of Games and Economic Behaviour* in 1944. Morgenstern provided the "economics" that von Neumann recast in mathematical form. This work laid the foundation for the postwar hoax of "mathematical economics", which omits the creative processes of the human mind in favour of a series of simultaneous linear equations.

4. Mitchell was also a eugenicist and a follower of Bentham. He wrote a favourable of review of British eugenics leader A. M. Carr Saunders' 1922 book, *The Population Problem, A Study in Human Evolution*. In his essay "Bentham's Felicific Calculus" (*Political Science Quarterly*, Vol. 33, No. 2, June 1918, pp. 161-183), Mitchell hailed Bentham as "the Newton of the moral world", because his "felicific calculus" had introduced "exact method into all discussions of utility".

AUSTRALIAN ALMANAC Vol. 12 No. 27

An age of infinite financial speculation: Who wrecked Bretton Woods, and why (Part 2)

This Australian Almanac continues our report on who engineered the termination, 50 years ago, of the post-war Bretton Woods monetary system. Knowing this history is an essential weapon in today's fight for national banking and real economic development.

Two varieties of monetarism: the Keynesian and 'Austrian' foes of real economic progress (continued)

By Allen and Rachel Douglas

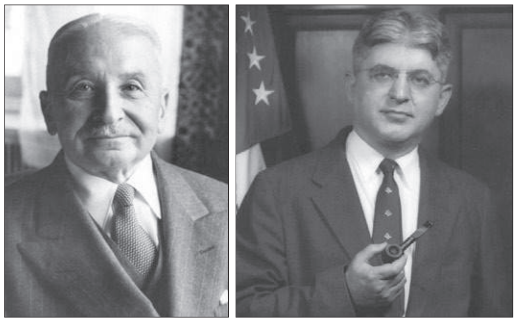
The beginning of this excerpt from "The Financial Oligarchy's War against the Nation-State: The Case of the Long-Term Investors Club" appeared in Almanac No. 26, 8 Sept. 2021, pages II-IV. Its conclusion, below, resumes with the activity of Prof. Wesley Clair Mitchell in the United States. He had studied under "Austrian School" economist Ludwig von Mises, wrote books attacking the productive credit system of President Abraham Lincoln's greenback currency, and founded the US National Bureau of Economic Research (NBER). Mitchell and several other of the Austrian School and Keynesian figures named below are introduced and identified in the first instalment of this article, as are the Venetian oligarchy's Vecchi *and* Nuovi *factions ("Old" and "New" families).*

One of Mitchell's first recruits, one who would remain associated with him for decades, was Arthur Burns, who headed economic research at the NBER in 1945-53. Thereafter Burns chaired the US President's Council of Economic Advisors for President Dwight D. Eisenhower. He taught at Columbia University, then returned to government as counsellor to President Richard Nixon in 1969, just two years before the fateful 15 August 1971 decision to float the US dollar. For eight years in the 1970s, Burns chaired the Federal Reserve System.

As chairman of the Council of Economic Advisors in 1953-56, Burns argued that the main purpose of the American economy was to produce *consumer* goods. That argument was an attack on President Franklin D. Roosevelt's plans to use the industrial might of the United States to unleash industrialisation worldwide, and so to end British colonialism forever. FDR had died in 1945. Instead of producing capital goods for Europe, the Soviet Union, and the rest of the world, as FDR had planned, the USA shifted into production of whitegoods and automobiles, and the issuance of huge amounts of consumer credit for purchasing them. (The impact of Burns's policy is elaborated in Paul Gallagher's paper, p. III of this Almanac.)

The famous Marshall Plan for assistance to post-war Europe contributed to the destruction of the Bretton Woods arrangements. In 1947 American exports to Europe were valued at about US$6.7 billion (out of a total $10.6 billion in exports), largely in capital goods, i.e., machinery. The Marshall Plan, announced in 1947 and drafted in 1948-49, called for reducing that annual total to $2.3 billion by 1952-53. As cutbacks began to take effect, they aggravated post-war hunger and other suffering in Germany.

America's massive industrial machinery, instead of producing capital goods exports to change the world, was constricted. It was directed into military use as the Cold War began, but it was also reoriented to consumer goods production, cutting back the "machine-tool principle" that drives any healthy economy. Yet an economy that downgrades its machine-tool sector eventually becomes incapable of providing sustained improvements in household consumption and the standard of living, as well.[1]



Ludwig von Mises (l.) trained dozens of academic and government economists in Austrian School monetarism. His follower Wesley Clair Mitchell recruited future Presidential adviser and Federal Reserve chief Arthur Burns (r.) to their thinking. Photos: Wikipedia

It was Burns, Wesley Clair Mitchell's prize pupil at the NBER, who pushed through this shift. Burns's successor at the Fed (in 1979-87), Paul Volcker, was trained by them.

The perspective of this group after FDR's death was to reorder the world economy, downgrading the United States economy while consolidating Europe under British imperial control as the seed crystal of a new world order, for purposes including confrontation with the Soviet Union.

As noted above, a stated goal of the Marshall Plan was to cut back US exports to Europe, in marked contrast to FDR's vision of rebuilding the post-war world and to the Plan's own later reputation as a vehicle for reconstruction.[2] Thereby the United States itself was weakened, compared with how it could have developed.

The Marshall Plan strictures started the process of ruining the dollar: As Germany and Japan got back on their feet using directed credit (created by their own national banking institutions, based upon American System principles),[3] they

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1. Paul Gallagher, "The Machine-Tool Principle: Revive LaRouche's Economic Recovery Act", *EIR*, 12 Sept. 2008.
2. *The British Empire's European Union: A Monstrosity Created by the City of London and Wall Street*, Citizens Electoral Council (now Australian Citizens Party) pamphlet, 2016, p. 21-24, details the dark side of the Marshall Plan. Available at https://citizensparty.org.au/publications.
3. *Time for Glass-Steagall Banking Separation and a National Bank!*, CEC (ACP), 2018, contains essential background on American System economics. Visit https://citizensparty.org.au/publications.

started pouring cheap consumer goods into the USA. This led to an increasing flow of dollars abroad and a rising dollar deficit throughout the 1950s. Even more important, Sir Siegmund Warburg (descended from the del Banco banking family of Venice, which had moved to Germany and changed its name in the 16th century), pioneered the unregulated eurodollar market of dollars circulating offshore, during that decade. By around 1960 the number of dollars abroad nearly equalled the volume of US dollars circulating domestically.

The assault on fixed exchange rates

With the growing mass of dollars circulating abroad, the Austrian School crowd began to argue for instituting floating exchange rates, since maintaining a fixed value of the dollar was untenable.

Another economist who studied under von Mises was Fritz Machlup, who wrote his thesis on the gold bullion standard. In 1963 Machlup, an Austrian immigrant to the USA, pulled together 32 top central bankers and advisors to governments, around an agenda of ending fixed exchange rates. Even among central bankers, there was significant opposition to such a change.

Machlup organised a series of meetings, held at the Rockefeller Foundation Centre near Bellagio, Italy. The attendees were indoctrinated with Austrian School economics, which is based, in addition to "marginal utility", on the quackish "mechanistic equilibrium theory". Machlup even said there should be a "value-free" equilibrium theory, rather than a "politically charged" equilibrium theory that included talk about such things as social welfare.

Machlup's Bellagio Group became a platform for campaigning against Bretton Woods.[4] Working with him was Robert Triffin, another pupil of von Mises, and by then a top figure in the OEEC/OECD.[5] "Triffin's Dilemma" said that the rest of the world needed dollars for liquidity, or else their economies wouldn't function, but if the USA kept pouring out dollars, then the dollar would be seen as overvalued and would have to be uncoupled from gold. They and other Bellagio initiators (many of them likewise veterans of Marshall Plan institutions) began to argue for unpegging the dollar from gold.[6]

Canadian economist Robert Mundell was a crucial figure in the Machlup-Triffin project. Already by 1960, he had invented a hoax called "optimal currency areas" (OCAs), based solely upon mathematical algorithms, as an attack on sovereign nation-states and their powers of credit expansion. The idea of OCAs is that, depending on circumstances, several smaller currencies could combine in one OCA, or, in the case of the USA, a country could be cut up into three or four parts to create separate OCAs.[7]

An active collaborator of Machlup, et al. in the campaign for floating exchange rates was Robert Roosa of the Fed and the Wall Street firm Brown Brothers Harriman.[8] Paul Volcker, who as undersecretary of the Treasury for international monetary affairs would prepare the way for ending the dollar's peg to gold, was his protégé.

These people set out to change the whole system. Their goal was to end fixed exchange rates, in favour of floating exchange rates. They wrecked the US economy, with the included purpose of establishing a world central bank and a world central government. Such an aim was consistent with discussions carried on since the late-19th-century British Round Table organisation, and its domination of the 1919 Treaty of Versailles and the League of Nations, in which leading British strategists such as H.G. Wells and Bertrand Russell advocated the need for "one-world government".

In looking at the mechanics and plumbing of how Bretton Woods was abandoned, the question arises: Who gave Fritz Machlup, this nonentity of a Viennese academic, the power to found the Bellagio Group? Who gave his Austrian School crony Friedrich von Hayek—Vienna-born, later London-based—such extraordinary power? Their power was derived in a centuries-long process, stemming from Venice via its two wings: the *Vecchi* of the Austro-Hungarian Empire and the *Nuovi* of the British Empire.

Old Venetian methods of money and power

One should not underestimate the power of the *Vecchi*, even in terms of money alone. Consider the economy of Europe. The European Union countries have a total population of 446 million, compared with the UK's 67 million, and the EU is one of the three biggest economies in the world, together with China and the USA. Think about the wealth the continental European oligarchy has accumulated since 1000 A.D., compared even to what the British have built up since 1763 (a conventional date for the start of the British Empire, at the end of the Seven Years' War in Europe) or since the end of the Napoleonic Wars in 1812-15.

The persistence of Venetian methods of managing money and exercising power was exemplified by the career of Siegmund G. Warburg/del Banco (see above). He arrived in the City of London not long after World War II, and soon engineered the defeat of the aristocratic titans of the City in the famous takeover of British Aluminium by Reynolds Metals of the USA. His obituary in the *Financial Times* of 20 October 1982 noted that S.G. Warburg was a master of pulling together consortia of private *fondi* (the traditional Venetian mode of maintaining wealth over many centuries, in "funds" or "foundations"), which cumulatively wielded enormous power. And the eurodollar market that S.G. Warburg set up was, in essence, a return to the old Venetian money system of floating exchange rates!

In centuries past, Venetian financiers would play gold and silver against each other. From 1000 to 1700 A.D., Venice, in its own name, was the centre of the world bullion trade. In

4. Carol M. Connell, "Fritz Machlup and the Bellagio Group: Strategy and Organisation of an Early NGO", *PSL Quarterly Review*, Vol. 64, No. 257 (2011), p. 143-66.

5. The Organisation for European Economic Cooperation (OEEC) was established in 1948 as the European coordinating body for the Marshall Plan. Staffed by representatives of Anglo-American banking interests, it became an important institution pushing for European economic integration—the future end of sovereignty in the European Union. In 1961 the OEEC was reorganised as the Organisation for Economic Cooperation and Development (OECD). As of 2021 the OECD is headed by former Australian Finance Minister (and free-trade fanatic) Mathias Cormann as secretary-general, a sign of Australia's weight within the world of speculative financial markets.

6. The "peg" of the US dollar, as the main reserve currency, to gold under the Bretton Woods agreements should not be confused with the traditional British imperial gold standard, with which US President Franklin Roosevelt broke in 1933. The latter is intrinsically hostile to the sovereign creation of credit by nations for physical economic development, because it restricts new issuance of credit to the value of the gold held in a country's vaults. A gold-reserve standard such as that of the Bretton Woods fixed-exchange-rate system (1944–71), where gold and currency reserves are employed to settle payments imbalances and maintain stability, is efficacious as long as the participating nations remain committed to policies of producing valuable physical assets—useful goods.

7. Alberto Giovannini, *The Debate on Money in Europe* (Cambridge, Mass.: The MIT Press, 1995).

8. Anton Chaitkin, Webster Griffin Tarpley, *George Bush: the Unauthorized Biography* (EIR, 1992) documents how Brown Brothers Harriman helped finance the Nazi Party's rise to power.

the 17th century the Venetians moved it to the Bank of Amsterdam, which functioned as a world "megabank" through the 18th century, and then, following the 1814-15 Congress of Vienna at the end of the Napoleonic Wars, to London. Through a special relationship with the Bank of England, the N.M. Rothschild firm oversaw the world gold standard in the 19th century, with the price of the precious metal being set each morning at its offices.[9] It was the same Venetian system, which barred credit-expansion, because everything had to be based on gold.

Today, the speculative manoeuvres involve paper currencies, but the principle is the same.

Many who have claimed to uphold the heritage of Bretton Woods or even called for a "New Bretton Woods" are the same people who took down the original Bretton Woods system. Mundell (1932-2021) was a key figure in the Reinventing Bretton Woods Committee, founded in 1994 for the stated purpose of "crisis-management"; its founder Marc Uzan anticipated the Davos World Economic Forum's "Great Reset" agenda of today,[10] by advocating a "private-sector" world monetary system, because governments and even the International Monetary Fund could not do the job.

Mundell typifies in other ways, too, the enormous influence of the clique that brought down Bretton Woods. In September 1971, just three weeks after his Bellagio Group's goal of eliminating fixed exchange rates was achieved through Nixon's decision, Mundell convened the Siena Group, another seminar series in Italy. It was pivoted on the old Venice-allied bank, Monte dei Paschi di Siena. Siena Group members included powerful figures like Italian central banker and Foreign Trade Minister (in the 1970s) Rinaldo Ossola.

Mundell had been trained under Sir Lionel Robbins at the London School of Economics. It was Robbins who in 1931 brought Austrian School kingpin von Hayek to the LSE, which became a training ground for Austrian School "neoliberalism" in the UK, while Cambridge dominated the (likewise monetarist) "neoclassical" economic theory of the Alfred Marshall/J.M. Keynes clique.

From the Austrian School came many of the privatisation/deregulation measures dubbed "Thatcherism". Its proponents trained the people who took over Russian economic policy after 1991.[11] Robbins was a co-founder of the Mont Pelerin Society, whose worldwide network of think tanks has devastated the economies of many countries, including Australia.[12]

9. London banking in the early 19th century was dominated by two immigrant families: the Barings from Germany, bankers for the British East India Company; and the Rothschilds, Jews from Frankfurt in the German Habsburg dominions. The Rothschild banking dynasty's founder had made his first fortune, in the 18th century, thanks to a clientele of oligarchs including princes of the Habsburgs' Vienna-based Holy Roman Empire. Nathan Mayer Rothschild, of the next generation, immigrated to the UK in 1798.

10. "BlackRock's monetary 'regime change' is fascism", *AAS*, 28 Aug. 2019; "'Great Reset': Government of, by and for bankers", *AAS*, 10 Feb. 2021.

11. "Russia's 1990s criminalisation was 'Made in London'", Australian Almanac, *AAS*, 30 May 2018.

12. "The 'free market' subversion of Australia", *AAS*, 15 Aug. 2018.

The early economic forecasts of Lyndon LaRouche

By Paul Gallagher

This article is an edited transcript of a presentation to the LaRouche Legacy Foundation seminar "On the 50th Anniversary of LaRouche's Stunning Forecast of August 15, 1971: So, Are You Finally Willing to Learn Economics?", which took place online 14 August. The author is a long-time associate of the late American economist Lyndon LaRouche and currently the economic affairs editor of EIR *magazine.*

At the start of 1957 Lyndon LaRouche made a very accurate forecast, in a privately circulated study, of the recession of August 1957-58, the most significant recession in the post-war period and one not expected by economists at all. Then, beginning in 1961 with a published article headlined "Depression Ahead?", LaRouche began to forecast the breakup by the end of that decade, with the potential consequence of economic depression, of the Bretton Woods system—what most people understood as the dollar-gold system. When Bretton Woods was indeed broken up at the start of the 1970s, it became widely known among liberal and left economists, and also American university and graduate students radicalised by the Vietnam War, that Lyndon LaRouche, uniquely, had been warning this was coming.

These forecasts by LaRouche came from his view of the Presidency of Franklin Roosevelt, and his knowledge that the Bretton Woods monetary system, in which the United States was the dominant economy with the reserve currency, was *not* the Bretton Woods that Franklin Roosevelt intended in creating it.

The LaRouche who made those forecasts in the decades after World War II, had warned fellow soldiers in the Burma-India theatre when FDR died in April 1945, that the shift to the "little man" Harry Truman (President, 1945-53) meant a fearful period for the United States. He had watched his fellow returning veterans quickly forget FDR's mission of remaking the post-war world without colonies and with, in FDR's own words, "twentieth-century methods … increasing the wealth of a people by increasing their standard of living, by educating them, by bringing them sanitation—by making sure that they get a return for the raw wealth of their community", not British "eighteenth-century methods".

When he began what he described as his serious study of the US economy in the 1950s, LaRouche confirmed that the American economy was not focused at all on capital goods exports to underdeveloped nations. And this was degrading capital formation. It was lowering the economy's productivity from the industrial infrastructure of FDR's great projects and war mobilisation. For a long time afterwards, he insisted that the economic failure of Eisenhower's Administration (1953-61), with Ike equalling Truman's two recessions in two terms, was that it did not follow through on that post-war mission, and export capital goods for development as we had exported machines to win the war. The World Bank, under Wall Street capo John J. McCloy, appointed by Truman, did not make low-interest loans for great projects in the Third World.

Eisenhower's economic policy pushed domestic consumer credit and an American consumer goods "boom". Here is the physical economic process LaRouche was looking at: US Census Bureau reports show that American exports of manufactured goods in 1955, at $8.6 billion value, were 30 per cent lower than they had been in 1950; they were still 20 per cent lower in 1960. The US trade balance in manufactured goods was of course positive in that period, but it was +5 per cent of American GDP in 1945, +3.5 per cent of GDP in 1950, +1.3 per cent in 1955, +0.6 per cent in 1960, and disappeared entirely before 1970.

Credit was going elsewhere. Mortgage loans issued went

Under Arthur Burns's guidance the 1950s Eisenhower Administration orchestrated a shift away from financing capital goods exports and into consumer loans for autos and whitegoods. Pictured is a 1956 Buick. Photo: Wikipedia

from negligible in 1950 to $57 billion in 1960. Auto loans issued went from essentially zero in 1950 to $16 billion in 1960. Cars on the road went from 30 million in 1950 to 80 million in 1955.

It was in analysing that auto sales credit bubble, the bust of which was about to hit both car manufacturers and dealers, that Lyndon LaRouche saw the 1957 recession coming: US auto production was 5 million vehicles in 1950, 8 million in 1956, and back down to 5 million in 1958. Auto then employed 15 per cent of the American workforce.

Later, LaRouche called his recession forecast "a study of longer-term capital formation trends completed in February of 1957, which forecast the forthcoming recession to occur that year as exceeding those in 1947-49 and 1954, and to persist for an extended period." More extraordinary was his first *published* long-term forecast, "Depression Ahead?" in 1961, which he completed in the 1967 *Third Stage of Imperialism*, the first mass publication of his own independent movement.

Fascist-model austerity foreseen

With "Depression Ahead?", LaRouche began to forecast not only the fateful economic events of the 1960s leading to the breakup of Bretton Woods, but also their impact on society. The US economy's concentration on its own consumption would end surpluses in goods trade, which were important to the dollar's global reserve function; and indeed the American goods trade surplus disappeared in the late 1960s. There would be "an inevitable impulsion towards adoption of Schachtian economics" in the United States and European nations; this meant Hitler's central banker Hjalmar Schacht's policy, an austerity policy involving steady, indefinite ratcheting downward of real wages.

And there would be "a new kind of approach to the underdeveloped sector". That approach, the transfer of production of some industries from industrial nations to what essentially were Schachtian work camps in the Third World, was the subject of LaRouche's criticism in *The Third Stage of Imperialism*. This serious attack on "globalisation" appeared long before that term was invented.

Just as important, LaRouche noted that "The levelling out of the rate of technologically oriented expansion of US industrial plant (and employment) capacity meant a drastically lowered rate of assimilation of racial minority strata." He wrote that there was "a demoralising shift of high school and university graduates' post-matriculation employment prospects away from production-oriented" jobs. And this, he forecast, meant that many youths would be radicalised in the United States and Europe in the 1960s, but working people only later, in response to real deterioration of economic conditions.

This insight was perhaps the most extraordinary early forecast LaRouche made. It defined his strategy for starting his independent political movement: Find radicalised students and graduate students of above-average discernment and commitment to the welfare of others. Teach them his method of economics, to prepare them to be able to show radicalised working people their common interest with the unemployed and with the working people of the underdeveloped nations. *The Third Stage of Imperialism* intended that anti-Vietnam War students recognise the Schachtian fascist policy underlying such a fundamentally colonial war. They could organise for a policy of Third World industrialisation and development projects. This could make common cause with those students' political antagonists, American and European skilled workers, who didn't realise how or why their job and wage prospects were heading south to Schachtian labour camps. One of LaRouche's first campaign posters proclaimed: "This man can get you a job rebuilding the world!"

The end of Bretton Woods

LaRouche's 1961 article had already forecast that a series of monetary crises by the end of that decade was likely under a continuation of US monetary policy, and that they would lead to the breakup of the Bretton Woods fixed-currency, gold-reserve system. The pound sterling crises of 1966 and 1967, leading to the uncontrolled 15 per cent devaluation of the pound in November 1967, turned out to be the trigger. In the post-war period the British had maintained their colonial "imperial trade preference" system and "pound sterling bloc" within the dollar-based Bretton Woods system. And, starting in the later 1950s, London banks blatantly violated the Bretton Woods rules by opening high-interest accounts for dollar deposits in London, then creating very high interest rate, actually unpayable dollar debt of Third World countries, known as eurodollar loans.

The huge pound devaluation put great pressure on the dollar, already weakened by the near-abandonment of FDR's capital goods export policies, the resulting collapse of the US goods trade balance, and inflation.

LaRouche frequently attacked Arthur F. Burns, Milton Friedman's teacher and mentor, who was head of Eisenhower's Board of Economic Advisors and Nixon's Federal Reserve chair. In the latter position, Burns simultaneously raised the money supply rapidly during 1970-71, while pushing for wage and price controls, until Nixon imposed them in August 1971 after breaking the dollar's link to its gold reserve.

The wage controls, and that Schachtian fascist policy to the underdeveloped countries, were the major issues in LaRouche's famous debate with Prof. Abba Lerner of New York University in December 1971. Lerner was considered the most brilliant of living Keynesian economists. In the debate he supported Nixon's action. Finally, under the pressure of LaRouche's reasoning that this would lead to Schachtian fascism, Lerner supported Schacht by name, before an audience of hundreds of New York City College students and teachers.

It has been noted that Lyndon LaRouche's reaction to the vindication of his economic forecasts and method by Nixon's actions on 15 August 1971, was to organise his own intelligence system and launch an intelligence service, *Executive Intelligence Review*. Consider: *EIR*'s leading preoccupations in its first years in the 1970s were towards formation of the European Monetary System, a so-called "golden snake" of fixed exchange rates in the European Economic Area; and towards creation of an International Development Bank, LaRouche's concept adopted by the Non-Aligned Nations in 1976; towards the United States issuing gold-backed industrial development bonds at $500/ounce of gold.

These were LaRouche's organising steps to re-create Bretton Woods as FDR intended it to function. Since the beginning of what he called his economic studies in the 1950s, LaRouche's understanding of the urgency of FDR's goal was fundamental to all his extraordinary forecasts.