

The genesis of austerity (Part 1)

Austerity: bankers' policy to crush nation states

By Elisa Barwick

Governments and central banks are again prescribing austerity, this time as the panacea for surging inflation; in the post-2008 crash era it was supposed to be the pathway to getting out of the debt incurred by bailing out collapsed banks. This article is the first in an Almanac series dedicated to exposing the real nature of austerity: what it is, where it came from, and how it could not possibly achieve its advertised objectives. Rather, austerity is a means, used today in the economic practice called "neoliberalism", to an entirely different end—handing control of public policy to private interests. Neoliberalism is **economic fascism**, packaged under the labels "austerity" and "economic rationalism", but actually designed to put the interests of an elite—those who hold money and political power—ahead of the populace, with or without Mussolini- or Chilean-style enforcement.

What is austerity?

Readers may have encountered "austerity" as a call for emergency belt-tightening and budget-cutting measures, but austerity, as a doctrine, has animated "free-market capitalist" economic policy for over a century. It runs as a unifying thread through all varieties of British-inspired economic theory, from British Liberalism and the Austrian school of economics, to Italian fascism, and neoliberalism.¹ It can inhabit seemingly opposed economic doctrines and can be wielded just as effectively in a period of expansion as in one of deflation.

What, exactly, is austerity as an economic policy? Scottish-American economist Marc Blyth defines it in his book *Austerity: The History of a Dangerous Idea* (Oxford University Press, 2013): "Austerity is a form of voluntary deflation in which the economy adjusts through the reduction of wages, prices, and public spending to restore competitiveness, which is (supposedly) best achieved by cutting the State's budget, debts and deficits". Assistant Professor of Economics Clara Mattei of the New School for Social Research in New York provides further crucial dimensions of the concept in her book *The Capital Order: How Economists Invented Austerity and Paved the Way to Fascism* (University of Chicago Press, 2022). Mattei demonstrates that austerity, as an economic policy, includes a moral imperative, bludgeoning people into accepting austere conditions in the name of future economic advancement or to avoid some negative consequence. The arguments Europeans were pummeled with in the post-World War I era are identical to today's mantra that "we must reduce the debt, or risk burdening our children". Such arguments are deliberately false and manipulative; austerity has never improved economic conditions for the masses, but has served only to enhance the elite's financial and political control.

The main thesis of Mattei's book is that austerity was designed to enshrine one set of rules for the masses, but another for those who control financial capital, i.e., the wealthy. This was necessary, she argues, because a "crisis of capitalism" erupted after World War I, threatening international financiers' domination of the world's economies. European governments that tried unsuccessfully to leave the economic mobilisation for the war effort entirely to market forces—the approach dictated by British liberal economic theory—were forced to resort to state intervention, including credit-creation. Raising the level of the productive economy also raised the standard of living of the average worker. A shift in economic and implicitly

political power commenced, as workers gained real bargaining power, something they would not give up easily after the war. Mattei expands the understanding of austerity policy as an attack by the financial elite on that new post-war reality, operating through three distinct but interacting forms: **fiscal austerity**—reduced government spending; **monetary austerity**, exemplified by raising interest rates; and **industrial austerity**—slashing wages and destroying working conditions.

Above all, this series will show that austerity is aimed at preventing government creation of credit to enhance the welfare of society as a whole. Clara Mattei employs Marxist categories of analysis, contrasting "capitalism" and "socialism". We draw on years of research into another tradition: national economy (19th-century German economist Friedrich List's term), also known as Hamiltonian economics or the "American System". The national economy system welcomes the role of private business engaged in *productive* enterprise; insists that government play a positive role in fostering physical economic development; and, above all, prioritises promotion of the general welfare of the population. It is opposed to all forms of *monetarism* (which puts *money* and the manipulation of money foremost in economic policy), including neoliberalism and its tools like austerity. In Australia, King O'Malley and the early Commonwealth Bank that he designed represented the school of national economy.²

Numerous governments, including Australia, had mobilised national credit during World War I for the war effort. A continuation of government credit-creation would ensure a trajectory of economic growth, reinforcing national sovereignty. Austerity programs, on the other hand, established rules that would keep nations within an economic straitjacket, binding them to the restrictive, anti-credit-creation gold standard and allowing them to spend only when the budget permitted or when private capital flowed.



The power of national credit was exemplified by Australia's government-owned Commonwealth Bank during World War I. Photo: RBA

1. "Two varieties of monetarism: the Keynesian and 'Austrian' foes of real economic progress", in Citizens Party pamphlet *Who ended the Bretton Woods system and opened an age of infinite speculation?*, 2021.

2. *Time for Glass-Steagall Banking Separation and a National Bank!*, ACP pamphlet, 2018, details these principles and their history in Australia.

To impose such control, reluctant nations had to be psychologically disarmed and their wartime methods of directed credit-creation walked back. This would require an ideological offensive. Austerity had previously been utilised in various forms and was, at times, weaponised by the British Empire,³ but the post-World War I period saw it fashioned into a new economic orthodoxy. The theory justified removing economic policy from the control of elected politicians. It was ushered in by new global institutions such as the League of Nations (LoN), whose economic theory was directed from the British Treasury and further spread by the Austrian school of economics, explicitly against national government-created credit. This poison unleashed a new form of British economic liberalism, known today as neoliberalism. The world's biggest banks backed the transition, as their loans to desperate war-torn nations mandated austere conditions to ensure repayment of debts and reparations. In the 1930s the Bank for International Settlements (BIS), colluding with new Bank of England-established independent central banks of European nations, laid the groundwork of the system we know today, in which economic policy decisions of nations are outsourced to trans-national technocrats.

The British Treasury trialled austerity mechanisms at home, as a tool for exerting private control over public governments, immediately at the close of World War I, but Italy and Austria became the test tubes for full-blown economic austerity. These cases will be detailed in the next parts of this series. This followed a consensus on austerity policy reached at international monetary conferences in the early 1920s. The new policies were adopted across Europe, but full traction was achieved only in Mussolini's Italy, under the enforcement of fascism. Fascism turned government policy decisions over to private interests, but it was not essentially different to what the British Treasury experiment had done. (After all, London had sponsored the fascist Mussolini and his rise to power.⁴) The British scheme was conducted under a "liberal" system supposedly based on the freedom of the individual, but in reality it was controlled by private financiers and their so-called independent economic experts.

The financiers' policies of deflation and austerity were implemented in Europe throughout the 1930s, even after the 1929-31 stock market and banking crashes ushered in the very deflationary Great Depression. The tensions these policies caused, including the rise of Hitler, led directly to World War II. The measures also set the foundations for the permanent new "rules-based international order" (originally known as the "liberal international order") to which we find ourselves subservient today.

Having been challenged by rising European labour movements after World War I, the imperial order was further threatened during World War II by US President Franklin Roosevelt, who demanded decolonisation and worldwide industrialisation as part of post-war agreements.⁵ With its colonies rebelling and its very existence at stake, the British Empire hastened to relocate its power to an "informal financial empire",

exerting control from behind the scenes.⁶ As City of London/Wall Street interests moved in the 1950s-60s to erode the post-war Bretton Woods financial system Roosevelt had initiated, the economic policy decisions of nations were increasingly outsourced to trans-national technocrats in institutions such as the International Monetary Fund, the World Bank, and the BIS. The brains trust of this neoliberal shift was centred in the Bank of England/British Crown-founded Mont Pelerin Society (MPS), established in 1947, which quickly set up a global network of think tanks, including in Australia.

Austerity vs. credit systems: a brief history

The model for a successful credit system was the First Bank of the United States, established in 1791 by Alexander Hamilton, the first Treasury Secretary of the newly independent American republic. Hamilton built upon the work of American nationalists who had been fashioning a republic that would use credit to finance economic improvements—among them Increase and Cotton Mather, Benjamin Franklin, and Mathew Carey.⁷ For Britain to retain its dominance over global finance and trade,⁸ it had to prevent nations from obtaining financial independence and the ability to develop internally, which would have enabled the emergence of a multitude of strong sovereign republics across the globe.

The success of the American Revolution, as consolidated through national banking, foreshadowed the failure of this ambition. Britain was forced, at least in part, to shift from colonial rule by military force alone, to utilising more subtle forms of domination through the imposition of the "free trade" policy. Lord Shelburne, leader of the genocidal British East India Company (BEIC), had originally tested out this anti-"American System" economic model in the late 18th century.⁹ Through such BEIC employees as his protégé Adam Smith, Jeremy Bentham, David Ricardo, John Stuart Mill and the infamous genocidalist Parson Thomas Malthus, founder of Malthusianism,¹⁰ this doctrine eventually emerged as "economic liberalism". The free trade and austerity of Shelburne's pilot program devastated America's ally France already in the late 1780s, precipitating the bloody French Revolution.

In the latter part of the 19th century, it appeared that the liberal form of economic control was also set to fail. The USA under President Abraham Lincoln again adopted Hamilton's approach during the Civil War (1861-65), issuing sovereign national credit in the form of "greenbacks" (currency notes).

6. "How London's Euromarket killed Bretton Woods", *AAS*, 19 Sept. 2018.

7. Anton Chaitkin, *Who We Are: America's Fight for Universal Progress, from Franklin to Kennedy, Vol. 1, 1750s-1850s* (2020).

8. "London's Invisible Empire", *AAS*, 13 Oct. 2021.

9. Formed in London in 1599, the British East India Company already had experience looting India ("loot" is the Hindustani word for plunder), conquering some regions militarily to exact its spoils, such as Bengal, where the company increased its tax receipts even during the 1771 famine. The BEIC boasted a bigger army than the British government's and provided a model for private corporations to wield power over nations' governments, or to merge with them. When Shelburne's political faction came to power in the UK, the BEIC's intelligence operations were incorporated into the Foreign Ministry, forming the country's first version of an intelligence service. See "The East India Company—the political economy of looting" (review of William Dalrymple's *The Anarchy*), *AAS*, 11 Mar. 2020.

10. British East India Company employee Malthus wrote his infamous 1798 *Essay on Population* to justify eliminating the Poor Laws, which provided bare minimum relief for the hordes of poor in depression-wracked 1790s Britain. Malthus asserted that population grows geometrically, but food supplies increase only arithmetically. He thus advocated policies to encourage famine and disease, to keep the population low. Malthus trained BEIC leaders who employed his recommendations in Ireland, India and Africa.

3. For example, "austerity and credit withdrawal" crushed France ahead of the French Revolution. "Freedom, and lessons from the French Revolution", *Australian Alert Service (AAS)*, 31 Aug. 2022. American historian Jamie Martin, in *The Meddlers: Sovereignty, Empire, and the Birth of Global Economic Governance* (Harvard U. Press, 2022), chronicles the case of European-imposed "debt commissions" from the 1860s in Africa, the Middle East, and the Balkans, which dictated spending decisions to prioritise loan repayment above all else.

4. "Britain's Role in Creating Fascism, Yesterday and Today", by Claudio Celani, *EIR*, 23 Dec. 2022. Republished, *AAS*, 25 Jan. 2023.

5. "Franklin Roosevelt's economic development policies vs the Anglo-American financial empire", *AAS*, 25 May 2022.

Lincoln's greenback program both financed his government's war effort against the British-supported Confederacy, and funded national economic development, including the Transcontinental Railroad, which helped finally unify the continent-wide United States.

Despite the assassination of Lincoln in 1865, the USA emerged as the world's leading industrial power. In celebration of the American System of protective tariffs, national banking, infrastructure investment, and the promotion of science and technology, the circles of Mathew Carey's son and Lincoln's ally Henry Charles Carey convened a Centennial fair in Philadelphia in 1876, attended by scientists and statesmen from around the world. American System ideas took root in Germany (newly unified as a nation in 1871), thanks to the influence of German-American economist Friedrich List, who had planned a rail network to link continental Europe with China. Advised by Wilhelm Kardorff, another Careyite, Chancellor Otto von Bismarck implemented American System policies. Industrial development surged in Russia, too, where Finance Minister Count Sergei Witte launched construction of the Trans-Siberian Railroad and, together with the scientist Dmitri Mendeleev, wrote in favour of "national economy" and against British free trade. In France, Foreign Minister Gabriel Hanotaux not only pushed for collaborative economic development in Europe, but mapped out a vision to transform Africa with rail development. Japan, under the Meiji Restoration, adopted the American System; Carey protégé E. Peshine Smith served as an economic advisor to the Emperor.¹¹

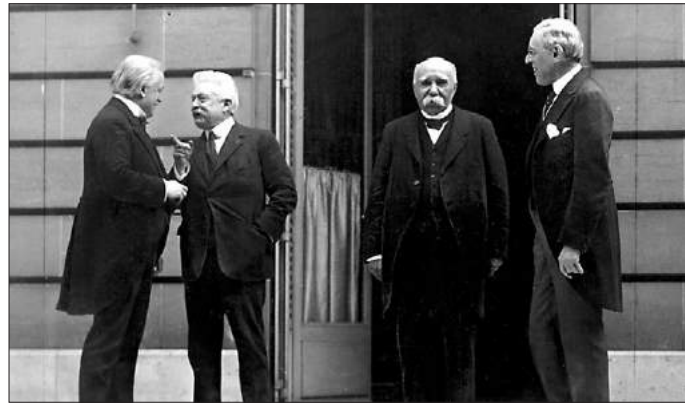
The British orchestration of WWI and the Versailles Treaty

Great Britain, seeing in these developments a threat to its imperial dominance, responded over the course of the next 40 years by spreading perpetual warfare across Eurasia, through an array of manipulations, playing one nationality off against another, assassinating political leaders, fostering the growth of deeply flawed pseudo-political movements and ideologies, conducting each-against-all diplomatic manoeuvres, and fomenting "regime change". British diplomats and intelligence agents forged alliances with the most backward, belligerent factions within the targeted nations, often through Freemasonic lodges and other secret societies, creating phony "liberation" movements. Kaiser Wilhelm II of Germany was manipulated by his uncle, the future British King Edward VII, to dismiss Bismarck in 1890. Count Witte, serving as head of government for another of Edward VII's manipulated nephews, Tsar Nicholas II, was ousted in the wake of the 1905 Revolution.

Instead of Witte's envisioned "continental league" of France, Germany, and Russia, oriented towards Eurasian development, London fostered or exploited the Franco-Prussian, Balkan, Sino-Japanese, and Russo-Japanese wars; engineered the isolation of Germany; and by 1907 had formed the Triple Entente of Britain-France-Russia. The Balkan Wars of 1912-13 were a prelude to the event that finally triggered World War I—the assassination of the Austro-Hungarian royal heir Archduke Franz Ferdinand on 28 June 1914.

Foreshadowing the war's aftermath in a 1915 Christmas morning speech, the UK's then-Minister of Munitions and later Prime Minister David Lloyd George apocalyptically pronounced that the old order was being left behind. The war, he said, "is the deluge, it is a convulsion of Nature ... bringing unheard-of changes in the social and industrial fabric."

World War I devastated the continental nations that had



The heads of the "Big Four" nations confer at the Paris Peace Conference (l-r, David Lloyd George, Vittorio Orlando, Georges Clemenceau, and Woodrow Wilson). Photo: Wikipedia

sought collaboration for economic advancement, leaving them vulnerable to the economic "solutions" of British economic colonialists. The war's indelible impact was to enshrine the economic doctrine of austerity within a centrally controlled global order, to prevent national credit systems from ever rising again. The key to the new order was to induce nations to accept private control of banking, via local agencies directed by global institutions. Thus, the British orchestration of the war set the stage for an intended creation of a European super-state that would effectively make nation states a thing of the past.

To begin with, the negotiations to end the Great War were studded with virtual timebombs, ensuring the peace would not last and the vanquished nations would become dependent on an externally determined political and economic framework, centred in the City of London and its allies and junior partners on Wall Street. Following Wilhelm II's abdication and the signing of the Armistice in November 1918, the Paris Peace Conference opened on 18 January 1919. The terms of peace were signed on 28 June in the Treaty of Versailles, the first of a series of treaties. Although it involved 32 nations, the conference was essentially run by the four great powers of the time: France, Britain, Italy and the United States. The Treaty included the famous "War Guilt" clause, which required Germany to pay reparations to Entente countries, to make up for allegedly causing the war and for economic losses to the nations involved. Millions of people in Germany and Italy opposed the signing of the Treaty. The exceedingly harsh terms of the agreement, particularly against Germany, made the Treaty unworkable. Though twice renegotiated, in the Dawes and Young Plans (named after City of London/Wall Street figures who wrote them), the reparations were indefinitely postponed by the 1932 Lausanne Conference.

Georgetown University (USA) Prof. Carroll Quigley, an admitted sympathiser of those who orchestrated the Versailles Treaty, wrote in *Tragedy and Hope: A History of the World in Our Time* (Macmillan, 1966), that the Paris conference was "assisted by groups of experts", many of whom "were members or associates of the international-banking fraternity". Although it was formally a peace conference, he explained, economic policy took centre stage. The Versailles treaty established international agencies as economic authorities that could dictate policy to national governments. These agencies required local enforcement arms, which would soon include, *de facto*, the fascist movements of the 1920s and 1930s, setting the stage for World War II.

The League's Supreme Economic Council

The Anglo-American elites dominating the Paris Peace Conference formed a Supreme Economic Council to dictate

11. Gabrielle Peut, "The American System and the Scientific Revolution of the Late 19th and Early 20th Centuries", *New Citizen*, Oct./Nov. 2011.



The Paris peace treaties imposed crushing conditions that fuelled the rise of fascist movements and set the stage both for World War II and for a new "rules-based order". Photos: Wikipedia

post-war economic policy. But, as even the monetarist British economist John Maynard Keynes pointed out, "The Treaty [of Versailles] includes no provisions for the economic rehabilitation of Europe"; he warned of disastrous consequences from that omission.

Part I of the Versailles Treaty formally incorporated the League of Nations, the world's first intergovernmental organisation. The LoN emerged as the seed crystal of a new "world government", in the words of its principal British and Wall Street designers. Its governing Covenant was drafted by the Supreme Economic Council, which was headed by Lord Robert Cecil, leader of the powerful "Cecil bloc" of British oligarchical families and a chief architect of the League itself. The LoN was designed to extend the Allies' wartime coordinating body, the Supreme War Council, into essentially a world government, establishing a global "rules-based order", arbitrating disputes and imposing sanctions on offending nations.

An economic conference to build consensus for League-centred mechanisms of supranational financial control was held in September-October 1920 in Brussels. Key organisers of the event were British civil servants J.A. (Arthur) Salter and Lord Robert Brand, who was also the managing director of the City of London's Lazard Brothers bank. As Quigley documented, both were leading figures in the imperial Anglo-American, Cecil bloc-centred Round Table group. The Brussels conference (examined in future instalments) resulted in the formation of the League's Economic and Financial Organisation, headed by Salter. It extended the monopolistic controls of the wartime economy into peacetime, moving them into private hands to economically box in the losing Central Powers. Wartime boards that had cartelised food and resource production and coordinated control of shipping and trade, for instance, had been set up by Salter and Lazard ally (Brand's protégé) Jean Monnet, later renowned as the "father of the European Union". Round Table leader Lord Cecil appointed Monnet as deputy secretary general of the new League.¹² The LoN lasted only 26 years, but its personnel bred and populated subsequent globalist institutions.

Salter appointed those who had run the wartime cartels as his section chiefs, moving all his London staff over when the League set up in Geneva, Switzerland. Through those cartels, which were "endowed with quasi-dictatorial powers", he

12. "The British Empire's European Union, A Monstrosity Created by the City of London and Wall Street", ACP pamphlet, available at citizensparty.org.au/publications

erected a "powerful intelligence network", exulted Monnet in his *Memoirs*. This positioned Salter's new unit for its task: designing austerity programs for war-torn nations including Austria, Hungary and Poland. This work was closely coordinated with the Bank of England at the personal direction of its Governor Montagu Norman, who led the drive to create central banks throughout Europe and beyond as instruments of Anglo-American financial rule. In 1927 Norman recruited to the BoE Sir Otto Niemeyer, an employee of His Majesty's Treasury since 1906. Niemeyer represented the BoE on the League of Nations economics and finance section until 1937, and played a key role in designing the austerity policy for the League's "test tube" state, Austria. (In 1930 Niemeyer made an infamous visit to Australia, where he dictated his "Premiers' Plan", which demanded that Australians accept "a lower standard of living" and that the country function chiefly as a supplier to the UK.)

The Reparations Commission, headed by Salter, was the other conduit for imposing austerity policy. But defeated Germany still proved recalcitrant, refusing to lower its population's standard of living or slash the budget to pay reparations. By July 1922, with the value of its currency plummeting as it tried to print its way out of trouble, Germany demanded a moratorium on reparations. Refusing to budge, the Commission authorised armed occupation of the industrial Ruhr region to enforce collection of the nation's productive income. This intolerable arrangement ultimately led to the reorganisation of reparations under the Dawes Plan, which with Salter's help was modelled on the League's Austrian experiment.

The Dawes Plan itself was "largely a J.P. Morgan production"¹³, wrote Quigley in *Tragedy and Hope*. JP Morgan partner Thomas Lamont had helped determine the reparations demands at Versailles. US banker Charles G. Dawes, former comptroller of the currency and Morgan collaborator, headed the international committee of financial experts convened to rearrange payment schedules. These schedules were so brutal that "Germany paid reparations for five years under the Dawes Plan (1924-29) and owed more at the end than it had owed at the beginning", noted Quigley. Meanwhile, he observed, "international bankers sat in heaven, under a rain of fees and commissions."

In 1930 the terms of the repayments were again rearranged in the Young Plan, named for the US industrialist Owen D. Young, a "J.P. Morgan agent", in the words of Quigley. The Young Plan led to the establishment of the Bank for International Settlements at Basel, Switzerland, ostensibly to facilitate international reparations payments between countries' central banks; today, however, the BIS dictates monetary policies to Western and other nations worldwide, including Australia.

Future instalments will cover the British austerity model, its promotion through international economic conferences, its installation in Austria and Italy, and the Bank for International Settlements and post-WWII Mont Pelerin Society takeover.

13. Named for John Pierpoint Morgan, the House of Morgan would later merge with Chase Manhattan which evolved from the Manhattan Company founded in 1799 by Aaron Burr, the assassin of US Treasury Secretary Alexander Hamilton. Burr's wife's family was well connected with British and Swiss financiers linked to Lord Shelburne (Chaitkin, *Who We Are*). Quigley notes that the House of Morgan also precipitated the infamous US "Panic of 1907", which led, as intended, to the creation of the US Federal Reserve System in 1913.