AUSTRALIAN ALMANAC Vol. 14 No. 21

The genesis of austerity (Part 6)

The rise of the BIS financial dictatorship

By Elisa Barwick

"...the powers of financial capitalism had another far-reaching aim, nothing less than to create a world system of financial control in private hands able to dominate the political system of each country and the economy of the world as a whole. This system was to be controlled in a feudalist fashion by the central banks of the world acting in concert, by secret agreements arrived at in frequent private meetings and conferences. The apex of the system was to be the Bank for International Settlements in Basel, Switzerland, a private bank owned and controlled by the world's central banks which were themselves private corporations. Each central bank, in the hands of men like Montagu Norman of the Bank of England, Benjamin Strong of the New York Federal Reserve Bank, Charles Rist of the Bank of France, and Hjalmar Schacht of the Reichsbank, sought to dominate its government by its ability to control Treasury loans, to manipulate foreign exchanges, to influence the level of economic activity in the country, and to influence cooperative politicians by subsequent economic rewards in the business world."

–*Carrol Quigley,* Tragedy and Hope: A History of the World in Our Time *(New York: Macmillan, 1966)*

That supranational bank with dictatorial financial powers, the Bank for International Settlements (BIS) cited by historian Quigley, was imposed in the period between World Wars I and II on nations that had been pummelled by British-instigated wars, economic austerity or brutal dictators. The organisers of the BIS were the same international financier circles who created the twin policies of austerity—strict reduction of the population's consumption and of governments' right to spend money or create credit in the national and popular interest—and fascism, the latter serving as a dictatorial regime to police the former. (Those projects are the subject of Parts 1-5 of this series, published in the Almanacs of 8, 15, 22 Feb. and 22, 29 Mar.; hyperlinks to each instalment are provided, in context, within this article.)

The BIS still exists and is the creator and policer of austerity policies that come down upon populations in countries participating in its system, including the abuses currently suffered by Australians at the hands of the "Big Four" banks here.

Established in 1930, the BIS was a central bankers' bank, created to determine the economic policy of nations, *free from the interference of their elected governments*. This would occur via an initial European network of independent central banks, planned by Bank of England Governor Montagu Norman, which was taking shape at the end of World War I (WWI).

The steps leading to its establishment commenced immediately after the war. The Allied war powers, guided by bankers who shaped the economic terms of the Treaty of Versailles which ended the war, demanded brutal measures to make Germany pay war-guilt "reparations". To enforce collection, a Supreme Economic Council was created at the fledgling League of Nations (also an outcome of Versailles), as a vehicle to enforce new economic policy "norms", including to stop inflation allegedly caused by wartime spending and higher levels of employment. But, as described in Part 1 of this series, the real aim of the bankers was to block the national direction of credit and industry, which had been adopted by some nations to provide the economic necessities of war. For the British, such practices raised fears of a return to the "American System" of national economy which had been adopted after the defeat of the British Empire in the US Revolutionary War and had spread to Eurasia in the late 19th century.

The Supreme Economic Council was populated by the British bankers and economists who had overseen the international control of resources, industrial production, trade and shipping for the Allied cause. Those same bankers ran a pilot program for economic austerity policies in the UK immediately after the war (Part 2), and organised two international conferences (at Brussels, Belgium in 1920 and Genoa, Italy in 1922) that laid out a new "financial code" of austerity. Montagu Norman personally oversaw a complete overhaul of finance in war-torn and bankrupt Austria, as the first overseas test-tube for the new policy; it outsourced Austria's economic decision-making to a League of Nation commission. Austria's elected leaders forfeited control of economic policy (Part 3).

Enforcer of austerity

The austerity code dictated belt-tightening on three fronts—fiscal, monetary, and industrial. This meant drastically reducing government spending; restriction of new credit by raising interest rates; and vicious slashing of wages and working conditions. Ultimately, it came down to reducing the standard of living of the majority of the population to balance financial accounts and attain "financial stability", a code term for protecting the system. The job of the BIS was to enforce these goals, with a surveillance role, keeping statistics on nations, indoctrinating central bankers, and writing the regulations that constrained the actions of national governments.

The BIS today is still dictating austerity to nations across the world, via central banks, in the name of financial stability, and still at the expense of the people. Governor of the Reserve Bank of Australia Philip Lowe's interest rate rises, forcing Australian mortgage holders into destitution, are informed by frequent communications with, and regular excursions to, BIS headquarters. A career central banker, Lowe spent two years at the BIS in Switzerland as head of the Financial Institutions and Infrastructure Division working on financial stability issues (2000-02), is a member of the Steering Committee of the BIS-housed Financial Stability Board (FSB), and currently chairs the BIS Committee on the Global Financial System. The bank hosts a sprawling, intersecting network of outfits across the globe. The FSB, the Basel Committee on banking supervision, and the Committee on the Global Financial System coordinate the regulatory regimes of member nations, imposing rules that were defined in the inter- and post-war period to protect British financial dominance. Today the agency proposes to steal the savings of households with its post-2008 "bail-in" policy to prop up its collapsing financial order[1].

As this series has shown, however, the austerity program was never successful in reducing debt, nor in stabilising the economy. It led to soaring unemployment, crushed real economic growth while fostering financial speculation, and drove political instability, contributing to the rise of fascism. Nonetheless, as with International Monetary Fund conditionalities today, in both post-WWI Austria and Italy, the other test-tube state, implementing austerity was a prerequisite for nations to secure new loans from British and American banks.

The bankers welcomed fascism for its success in enforcing austerity. The case of Italy makes this crystal clear: As shown in Parts 4 and 5, Italian dictator Benito Mussolini was ushered into power by British intelligence to enable brutal austerity. Italy was praised for achieving financial stability, even as the population was terrorised. By the late 1930s, Mussolini had introduced the "corporative" state, which handed control of government to private interests. Whether nations had elected governments or not, the authors of the austerity doctrine intended such control to be imposed everywhere, under a new global financial order wherein nations would sign over the determination of policy to an external, unelected, privately owned agency. US President Franklin Roosevelt, from across the Atlantic, would fight this threat tooth and nail, as would leaders of the "old" Labor Party in Australia.

Australian leaders rejected the austerity ordered in 1930 by the visiting Sir Otto Niemeyer, a Bank of England heavyweight who had designed the European pilot programs and would hold top jobs at the BIS in 1931-46. Premier of New South Wales (1925-32) Jack Lang captured the essence of the fight in his 1962 book, *The Great Bust*. As leader of the NSW Labor Party from 1923 until 1939, Lang had led the charge against the British plan which was crushing Australian households. He noted that WWI had given rise to national banks in opposition to private financier-controlled central banks. The City of London, concerned about such developments, not only in Australia but in Canada, Africa and other Dominions, needed "to find ways and means of re-establishing the financial supremacy that had been lost during the war". Therefore, "Some formula had to be devised which would enable such local institutions as the Commonwealth Bank of Australia to be drawn into the City of London's net", wrote Lang. "The financial experts studied the problem deeply. Out of their deliberations emerged the plan to centralise the control of all banking throughout the Empire by channelling it directly into the supervision of the Bank of England. ...

"The Bank of England was to become the super Bankers' Bank. The Commonwealth Bank of Australia was to be responsible for the local administration of Bank of England policy. It was to be the junior Bankers' Bank." All credit would be at the mercy of the BoE which controlled the tap, explained Lang, who had closely followed proceedings at the 1922 Genoa economic conference (Part 2).

"It was even decided to aim at a World Bank, to be run by the League of Nations, which would direct the credit of the world", he continued, and "determine the economic policy of the world. The bankers were to be the supreme rulers. Naturally, the Governor of the Bank of England expected to be at the apex of the system." With such control over banking, "there should be no impediment in the way of controlling the Government of the country as well", wrote Lang.

Norman's dream becomes reality

Creation of the BIS began with attempts during the late 1920s international financial crisis to rescue the German reparations schedule—run by the Anglo-American banking giant JP Morgan & Co.—and with it the struggling post-war order. Led by Norman, the "lords of finance" pushed to transform the League of Nations Financial Committee into a bank that would take control of reparations payments. Ultimately the bank was established separately, but the League's Austrian experiment, which outsourced economic policy to agencies external to elected government, formed a critical precedent.

Since the beginning of the century, when Venetian financier and Italian Treasury Minister (later PM) Luigi Luzzatti started campaigning for the idea, key international bankers believed that the creation of a new bank, "independent" of any individual nation and ostensibly of politics, would sidestep countries' concerns about external interference in their affairs. The League's Jean Monnet (French financier) and British Treasury officials Basil Blackett and Frank H. Nixon worried that, unlike countries ravaged by British debt commissions (set up in the previous century to gouge debt payments out of colonies and weak entities like the Ottoman Empire, often at the cost of thousands of lives), some European countries would not accept orders from British bankers. Nixon told British economist John Maynard Keynes in early 1922 that "some kind of screen is necessary ... to make this control acceptable". That screen would be the BIS.

Germany had been printing money to sustain itself, with hyperinflation exploding by late 1923. A banker by the name of Hjalmar Schacht was given near-dictatorial powers to stabilise the German economy, a full decade before Hitler took power and Schacht became his Economics Minister. Within a month of commencing his role as currency commissioner of the Reich, Schacht was promoted to president of the German central bank, the Reichsbank. That same month he travelled to London to meet Norman, who became his close friend; within a few weeks Schacht "had virtually become Germany's economic dictator", wrote his biographer, John Weitz.

Schacht's rise coincided with the 1924 reorganisation of German reparations under the Dawes Plan which applied the British/League austerity model, designed for Austria, to squeeze profits out of the country. (The Dawes Plan is detailed in Parts 1 and 3.) But the 1929 stock market crash interrupted the Dawes schedule. The epicentre of the crash was Wall Street, but the initial shock that evaporated confidence occurred in London[2] and the storm would soon circle back to Europe with the 1931 collapse of Austria's Creditanstalt bank.

Austerity policy was crushing Germany. Chancellor Heinrich Bruning mimicked Mussolini, using decree powers to force through vicious budget cuts. The situation worsened after a February 1929 new round of reparations negotiations resulted in the Young Plan, named after American industrialist Owen D. Young, who had co-authored the Dawes Plan. J.P. Morgan Jr and his partner Thomas Lamont participated in producing the new plan, which included the commercialisation of reparations payments—bringing private banks

1. See the ACP's "Stop 'Bail-in'" page, citizensparty.org.au/stop-bail-in

2. In September 1929 Britain's Hatry group collapsed. Clarence Hatry, the company's principal, had committed fraud with double issues of stock certificates, while attempting to conclude a merger with United Steel Companies.

in on the profiteering—all overseen by Morgan. The authors of the Young Plan demanded a depoliticised international bank made up of central bankers, to administer the scheme.

British, American, French and German central bank heads had already had their first, informal, summit in New York in mid-1927, initiating a forum that would be formalised with creation of the BIS. Schacht (working with Young) and Norman now shepherded consensus towards the institution of the bank. When agreement on the Young Plan was reached in June 1929, the bank was included. Norman deployed Walter Layton, the editor of the London *Economist* who had been Winston Churchill's deputy in the WWI munitions ministry, to draft a constitution "that would place the bank beyond the reach of governments", in Layton's words. But the plan met with opposition. British Labour Prime Minister Ramsay MacDonald, elected that same month, resisted the austerity policy, which the major bankers were still pushing as the great solution even though the deflation of the early 1930s posed a greater danger of economic collapse than inflation did. Austerity required the "negation of everything that the Labour Party stood for", said MacDonald. With increasing talk about a new international bank to coordinate policy, Chancellor Philip Snowden expressed concern about the rise of a new "financial autocracy" outside government control.

As the bank itself has admitted[3], the BIS fulfilled the Norman plan for international control of banking, agreed at Genoa[4], despite its nominal purpose being to facilitate reparations and perform the functions of an international clearing house. Norman had made his plan explicit in a 1921 manifesto for central bankers, demanding coordination between central banks that were independent of national governments, including the "confidential interchange of information and opinion". His proposals would later show up in the 1935 BIS guidelines. In 1925 he explicitly called for "a private and eclectic Central Banks' 'Club'". This meshed with the vision of the aforementioned Luigi Luzzatti, for international central bank cooperation. Acknowledged as a key instigator of the BIS, Luzzatti was a front man for the powerful Venetian families that assisted Mussolini's rise (Parts 4 and 5). He insisted from the early 1900s that traditional politics would get in the way of effective economic policy. Mussolini advisor Alberto Beneduce, who kept in close contact with Norman, joined the BIS Organisation Committee to fight for absolute BIS autonomy in its foundation documents. He worked closely in this aim with fellow committee member Pierre Quesnay, a French economist from the League's Financial Committee, who had worked on the Austria project and became the first general manager of the BIS.

At a series of international financial conferences, these men drafted and agreed upon a charter for the BIS. The founding documents were ratified through a convention (an intergovernmental agreement or treaty) signed by the governments involved[5] at a January 1930 conference at The Hague in the Netherlands.

The BIS is the consummate public-private partnership, the very embodiment of fascism—which FDR described as "ownership of Government by [a] ... controlling private power"—on a global scale. It combines the privileges of government with private power: The bank is protected by international treaty signed by elected governments, but is controlled by the independent central banks of those nations, whose members are not elected. Governments cannot change its statutes; this may occur only by consent of member central banks. The bank has no legal powers of enforcement in any nation, yet as a private, commercial operation it dictates rules to central and commercial banks, and increasingly to governments themselves. It is manned by representatives of nations, but *not* those holding elected office. Unlike any other private outfit, its charter provides extensive diplomatic and legal immunities for its staff, property and assets; it is exempt from taxation. As its first head, American banker Gates McGarrah wrote, "The bank is completely removed from any governmental or political control. … Governments have no connection with it nor with its administration." Upon its inception, central bankers would visit BIS headquarters for marching orders every month. A high priesthood of unelected global policymakers had been installed.

Four central bankers, dubbed the Lords of Finance, at their 1927 New York meeting: Hjalmar Schacht, Benjamin Strong, Montagu Norman and Charles Rist.

The BIS and the Nazis

The financial breakdown gathered pace and in May 1931, amid a frenzied financial environment created by League loans to Austria that were channelled into speculation (Part 3), the major Austrian bank Creditanstalt collapsed. Contagion spread to Germany's second-largest bank, Danat-Bank, which collapsed in July. Money fled the country and Germany, wracked by Bruning's austerity and with large debts and low reserves, was unable to meet reparations payments or prop up its currency to uphold its peg to gold. By September 1931 Britain had also exited the gold standard, and the rest of the Empire and other major trading partners followed, feeding financial panic. This financial and geopolitical instability propelled the Nazi Party in Germany.[6] But its takeover could have been prevented, had the German leadership adopted the American System solutions of Dr. Wilhelm Lautenbach, a senior advisor in the German Economics Ministry, who in 1931 proposed national credit to build a way out of the depression.[7]

The Hitler project was backed by the same banking fraternity that ran the austerity regimes in Austria and Italy and was getting fat off German reparations. Norman, a public face of the world's most powerful financial interests and a person with considerable influence in international relations, played a key role, along with his man Schacht, in reviving the

3. Claudio Borio and Gianni Toniolo, "One hundred and thirty years of central bank cooperation: a BIS perspective", BIS Working Papers 197, Feb. 2006.

4. During negotiations for establishing the BIS, British banker Charles Addis declared the plan would "fulfill the dream of Genoa by the gradual development of the BIS into a cooperative society of Central Banks".

5. The Swiss Confederation, Belgium, France, Germany, Italy, Japan, and the UK, together with a US banking consortium including JP Morgan, the First National Bank of New York, and the First National Bank of Chicago.

6. Nazi votes surged in areas affected by bank collapses. "Financial crises and political radicalisation: How failing banks paved Hitler's path to power", BIS Working Papers 978, Nov. 2021.

7. Hartmut Cramer, "Wilhelm Lautenbach's Concept of Productive Credit Creation", *EIR*, 18 April 2003.

prospects of the German Nazi Party. They organised the replenishment of its empty coffers in 1932. Wall Street banks, including New York-based Brown Brothers Harriman, the largest private investment bank in the world at that time, facilitated Nazi credit lines and corralled funding. Norman himself had started his career with Brown Brothers, where Prescott Bush, father and grandfather of the two US Presidents Bush, was a managing partner. These bankers were closely tied to the German industrial interests bankrolling the Nazi Party, including Fritz Thyssen of Thyssen companies. As support for the Nazis grew with the worsening crisis, Schacht, conspiring with American lawyer John Foster Dulles[8], steered Hitler into position to take the Chancellorship in early 1933. As Reichsbank president, Schacht was in almost daily contact with Norman, with German banker Max Warburg of the Warburg banking family, his number two at the Reichsbank, and with Max's nephew Siegmund who was advising Schacht. After joining Hitler's government as Economics Minister in 1934, Schacht brutally fulfilled the British austerity code with slave labour and concentration camps. Whereas Germany had been deliberately crushed under debt in the 1920s, once Hitler came to power Bank of England credit and Anglo-American debt relief were suddenly forthcoming.[9]

Acknowledged in the history books as a founder of the BIS, with Norman, Schacht remained on the BIS Board of Directors from 1933-38. The BIS allowed Nazi Germany to continue to function financially and obtain imports, despite being cut off by major nations. It carried out foreign exchange transactions, recognised the regimes Germany installed in occupied nations, arranged transfers of stolen gold, and facilitated complex schemes to funnel money to the Nazis. The BIS provided information to the Reichsbank on the finances of Germany's enemies.

Prior to Nazi annexation of its Sudetenland region in 1938, Czechoslovakia had already transferred most of its gold, for safekeeping, into accounts at the Bank of England—accounts in the name of its own central bank or of the BIS on its behalf. Under the Nazi occupation, in 1939 National Bank of Czechoslovakia staff were forced to order its gold to be transferred from the Czechs' BIS-run account at the BoE into the Reichsbank's account. With BoE approval, the BIS shifted 23.1 metric tonnes of Czech gold to the Nazis, in just one of several transactions. Montagu Norman, in the name of conducting banking free from political (or moral) considerations, insisted the transactions be fulfilled. "I can't imagine any step more improper than to bring governments into the current banking affairs of the BIS", he wrote regarding the matter. BIS Chairman Otto Niemeyer wrote that he was satisfied "that there was no legal reason why the instructions should not be executed, and the transaction was therefore carried out in the usual manner." Incredibly, he added: "There had, in fact, been no alternative but to carry out the instructions received." This insistence—in March 1939, just six months before the formal outbreak of war—on keeping financial decisions out of the hands of elected politicians, assured the advance of the Nazi war machine. The BIS continued to facilitate transfers of looted gold throughout the war, including gold obtained from concentration camp victims, and transferred occupied nations' BIS share-holdings to the Nazis. BIS independence would demand a high price, wrote British author Adam Lebor—"mountains of gold ingots to pay for steel to build bombs that would soon rain down on London."[10] But claims of the bank's political neutrality were lies: it refused to conduct similar transfers requested by the Soviet Union.

Historical documents also reveal the bank acted as an intelligence interface between the Nazis and pro-Nazi political and business circles in the USA, connecting German industrialists backing the Nazis with Allied business, with "the full assistance" of the State Department. American banker Thomas McKittrick, BIS president in 1940-46, worked as an "asset" of US intelligence director Allen Dulles (John's brother). McKittrick was close to BIS director Emil Puhl, a notorious Nazi who was vice-president of the Reichsbank and oversaw the movement of Nazi gold and the finances of Hitler's murderous SS forces. Over a dozen Nazis held key positions at the BIS before and during the war, including Hitler's economic adviser and later Reichsbank President Walter Funk, BIS director in 1938-39. As the war drew to a close, BIS personnel assisted Nazis to survive in the post-war era.

Post-war: The Bretton Woods fight

Efforts to liquidate the BIS after the war confirmed that it was virtually untouchable. US Treasury Secretary Henry Morgenthau rightly condemned the BIS as "a symbol of Nazi instrumentality". At the July 1944 Bretton Woods international monetary conference, he and Treasury official Harry Dexter White, on President Roosevelt's behalf, led a charge to shut down the bank. The resulting resolution was opposed by the British delegation (represented by John Maynard Keynes), which threatened to abandon the conference and the postwar institutions it was constructing if it was not withdrawn. As a result, the motion was watered down and its weak call for "liquidation of the [BIS] at the earliest possible moment" was never implemented.[11] FDR died in April 1945 and Morgenthau lasted only three months in the administration of his successor, Harry Truman. By 1945 the US Federal Reserve quietly advised Treasury to drop the BIS liquidation plan. The BIS laid low until events made possible its revival.

FDR had demanded decolonisation of the British Empire and planned to work closely with the Soviet Union and China to uplift the developing world.[12] But Churchill, with Truman, launched the Cold War and the US-UK "special relationship". The 1948 anti-Soviet Marshall Plan, ostensibly designed to rebuild Europe after the war, became a vehicle instead for expansion of London's reach, now in tandem with its Wall Street junior partner. With East-West cooperation off the table and the BIS positioned to maintain and enhance its power, the way to a new "informal financial empire" was open.

Next—The Mont Pelerin Society dictates global fascism

8. John Foster Dulles helped in the capacity of legal representative of Brown Brothers Harriman and other banks. He had earlier been a legal counsel at the 1919 Paris Peace Conference and helped design the Dawes Plan. Later he would be US Secretary of State in the Cold War.
9. Webster Griffin Tarpley and Anton Chaitkin, *George Bush: The Unauthorised Biography* (*EIR*, 1992).

10. Adam Lebor, *Tower of Basel: The Shadowy History of the Secret Bank that Runs the World* (Public Affairs, 2013).
11. "BIS: The sleeper cell that destroyed Bretton Woods", contained in *Who ended the Bretton Woods system and opened an age of infinite speculation?*, ACP, 2021.
12. "Franklin Roosevelt's economic development policies vs the Anglo-American financial empire", *AAS* Almanac, Vol. 13 No. 14.