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The genesis of austerity (Part 7)

The Mont Pelerin Society dictates global fascism

By Elisa Barwick

City of London bankers, intent on reviving economic liberalism after World War I, wrote new economic rules at the international Genoa conference in 1922 (despite its being a rump meeting after major participants Germany and Russia walked out). As reported in Part 2 of this series, they proclaimed at Genoa a "code of austerity", mandating reduced consumption by the population and prohibitions on government spending or credit-issues for real economic development. After testing in the UK, the austerity policy made its full debut in Fascist Italy (Parts 4 and 5) and in Austria and Germany (Parts 3 and 6), where it fed the fascist takeovers of those countries as well. That did not deter the London bankers and their American and German hangers-on from inaugurating in 1930 a new central bankers' bank to police austerity and uphold the priority of financiers' interests: the Bank for International Settlements (BIS), as reported in Part 6.

World War II thoroughly disrupted the liberals' scheme. For one thing, those three fascist showcases of economic liberalism (full freedom for financiers) and austerity—Italy, Austria and Germany—were defeated in the war. From the other side, there was the leadership of US President Franklin Delano Roosevelt in favour of a very different policy.

Facing the Great Depression, Roosevelt reached back into American history to revive the American System economics of first US Treasury Secretary Alexander Hamilton, whom he had studied.[1] His 1933 New Deal broke with the budget-balancing approach of President Herbert Hoover, his predecessor, and began a series of credit-generation programs to finance job-creation in rebuilding the real economy. Under FDR, the Reconstruction Finance Corporation functioned as a Hamiltonian national bank, issuing credit for the Tennessee Valley Authority and many other infrastructure and industrial projects.

A debate over the necessity for public expenditure programs erupted in the UK, as well, at that time. The setbacks to the liberal agenda were so severe during the 1930s Depression, which that agenda's implementation had done much to bring on, that by the end of the decade some of its proponents were publicly lamenting the impending death of economic liberalism.[2] Roosevelt referred to the liberal financier circles of London and Wall Street as "economic royalists" who should be defeated.

During the war itself, state guidance of the economy went far beyond the state spending for war needs during World War I that had distressed the Versailles, Brussels and Genoa conferees in 1919-22 (Parts 1 and 2). In line with his Depression response, FDR applied American System methods to build up US industry as an "Arsenal of Democracy" to defeat the Nazis. What's more, Roosevelt confronted British PM Winston Churchill with the need to apply the same methods to a post-war, post-colonial world, as against British imperial "18th-century methods". Said FDR, "*Twentieth*-century methods involve bringing industry to these [soon to be former] colonies. Twentieth-century methods include 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."[3]

By the end of World War II, linchpins of the Empire like Egypt and India were preparing to depart from it. In the UK itself, Labour Prime Minister Clement Attlee, who took office in July 1945, adopted FDR's philosophy of putting people ahead of markets. He nationalised key industries, and established public housing and free public healthcare. In 1946 he took on the sacred cow of central bank independence by nationalising the Bank of England, which had been founded in 1694 as a club of private banks. In other European nations, such as Italy and France, strong Communist parties, which had taken a major part in the resistance to fascism, were gaining ground. Soon Germany and Japan, and South Korea later, would get back on their feet economically by using directed credit created by their own national banking institutions, based upon American system principles.

Thus there was no smooth sailing for the liberal agenda. The financiers' flagship organisation, the BIS, came within a hair's breadth of being disbanded at the Bretton Woods international monetary conference of July 1944, as Roosevelt and his team had sought. It would be decades before the BIS could gain the stature it has today as the arbiter of a liberal, "rules-based" bankers' dictatorship.

Liberals regroup

As always, British liberalism adapted to the times. In the financial-economic realm, it did so using two varieties of monetarism: the anti-government super-liberalism of the Austrian School of economics, and its seeming opposite, Keynesianism.

On that first track, neoliberalism, the bankers who had created the BIS launched their next project in 1947. The Mont Pelerin Society (MPS) think tank was founded in a hotel on the slope of the Swiss mountain after which it is named, with the purpose of organising a drive for international top-down control of financial policy, disguised as a crusade for individual economic freedom. Its perspective was to build a political consensus—entirely lacking at the time—infiltrating neoliberal ideas into academic and, ultimately, government institutions of key countries.

At the City's direction, the core of the MPS was formed by the Austrian School of Economics, whose leaders had come onto the world stage as advisers to the Bank of England/League of Nations Austria project in the 1920s (Part 3).

1. Robert Barwick, "The Hamiltonian Revolution and FDR's Glass-Steagall", *Time for Glass-Steagall Banking Separation and a National Bank!*, ACP report, 2018.
2. Richard Cockett, "Keynes and the Crisis of Liberalism, 1931-39", chapter in *Thinking the Unthinkable: Think-Tanks and the Economic Counter-Revolution, 1931-1983* (HarperCollins, 1994).
3. "FDR's Post-Colonial Vision Challenged Churchill", *The British Empire's European Union*, ACP pamphlet, 2016, p. 10.

In August 1938 diehard liberals, including Austrian School founders Ludwig von Mises and Friedrich von Hayek, had gathered in Paris to plot liberalism's future. Throughout the 1930s they had been working out of the Graduate Institute in Geneva (Switzerland), a League of Nations-affiliated, Rockefeller Foundation-funded body founded in 1927. The Geneva Institute was a nest of League and Austrian School figures who designed the Austrian Protocol for austerity and the demolition of any government control of economics and finance.

Several Graduate Institute members attended the inaugural MPS summit in 1947. The new organisation regrouped them and other Europeans, ones who had openly sponsored fascism in the 1920s and 1930s. Among them were members of ancient Venetian and Austro-Hungarian families, such as Otto von Habsburg, co-founder of the Pan-European Union movement, and Bavarian Prince Max von Thurn und Taxis, whose family for centuries had owned the continental European postal service and run foreign intelligence for the Republic of Venice and, later, the Habsburg royal family in Austria. Thurn und Taxis became a titan of the MPS, serving as its secretary-cum-controller from 1976 to 1988.

It was evident in the run-up to the MPS's founding, that the Austrian School was now oriented "to Britain as the cradle of liberalism", wrote British historian Richard Cockett. Hayek had taken up a position at the London School of Economics (LSE) in 1931.

As the British Labour Party under Attlee campaigned for the upcoming election with a platform of increased government intervention to boost the economy, a February 1944 meeting of the Political Society at King's College, Cambridge, set into motion the plan for an international propaganda unit to subvert such an outlook. Hayek planned the event with John Clapham, a close collaborator of Montagu Norman at the Bank of England.

In October 1945 Albert Hunold, an LSE-trained Swiss businessman, invited Hayek to speak at Zurich University. A senior official at the Swiss banking giant Credit Suisse, Hunold had crossed paths with Hayek at the Graduate Institute. He would soon become secretary of the MPS. Hunold introduced Hayek to a group of Swiss industrialists and bankers, whom prominent City of London figure Sir Alfred Suenson-Taylor (later Lord Grantchester) would tap to fund the project. Seed capital, particularly for the initial meetings of the MPS, came from the biggest Swiss banks including Credit Suisse and UBS, insurance companies such as Swiss Re, the Swiss central bank, and Swiss businessmen.[4]

As Hunold later recounted, at that Zurich confab Hayek proposed to hold a subsequent, week-long meeting in a Swiss Hotel to discuss "the foundation of a new liberalism in the western world" to counter the threat of "Socialism" in the UK and New Deal America.[5] Hunold's Swiss Institute of International Studies (SIAF), which he had established in 1943, became a feeder operation for the MPS. It mobilised elite circles of the country to channel funds, host lectures, conduct publishing and translations, and run logistics for the MPS project.

Suenson-Taylor, later chairman of London and Manchester Assurance, continued to arrange Bank of England funding for MPS meetings, many of which he attended, after its founding. Earlier he had founded the International Liberal Exchange, considered the first neoliberal think tank, with offices in London and Geneva. It would feed the nascent Institute of Economic Affairs (IEA), the London think tank established in 1955 by British businessman Antony Fisher at Hayek's suggestion, providing its co-founder and key staff. Fisher had met with Hayek at the LSE in 1945 inspired by a *Reader's Digest* summary of Hayek's 1944 anti-government tract, *The Road to Serfdom*.

City of London financiers led by Harold C. ("Harley") Drayton kept the money flowing. With business partners who were either close to, or members of, the Royal Family, Drayton ran a network of investment trusts—the prestigious Drayton Group. He controlled at least 20 trusts and chaired some 23 companies, from banks to tramways, newspapers, and real estate. Much of the group's financial power derived from two big clients: the Church of England and the British Crown.

It was Drayton's bank, Midland (one of the original British "Big Four" with Barclays, National Westminster and Lloyds), that in the 1950s began making trades that bypassed the Bretton Woods financial regulations, which prevented currency speculation and controlled capital flows. These trades were the beginning of "Eurodollar" market pioneered by Sir Siegmund Warburg, a City of London financier who earlier had advised Nazi Economics Minister Hjalmar Schacht. That scheme would usher in the financial deregulation promoted by the MPS and reinforce London's financial power at a time when it as threatened with extinction.[6]

From the US side, anti-New Deal businessman Harold Luhnow put up funds, through his Kansas City-based William Volker Fund, for Americans to travel to Switzerland for the inaugural MPS meeting. The Volker Fund paid for the US university salaries for Mises and Hayek (who moved to the University of Chicago in 1950), lecture tours by American economist and MPS founding member Milton Friedman, and the establishment in 1946 of the Foundation for Economic Education in New York, where Mises worked.

The first summit

Hayek declared that the agenda for the founding MPS conference was to "provide the intellectual foundation for a new liberalism to confront the many problems besetting the post-war world", based on a "philosophy of freedom".[7] In reality, the philosophy was not freedom at all, but fanatical individualism, geared towards returning the world to feudal, pre-nation state times, before the advent of elected governments.[8]

As with the austerity programs, executive power would be handed to external technocrats. Hayek mapped this out to Fisher as he was preparing for the inaugural meeting, warning him against wasting time on a mere career in politics. He told Fisher that the key players would be "intellectuals" who could promote the desired ideas, and encouraged him to form a "scholarly research organisation to supply intellectuals in universities, schools, journalism and broadcasting with authoritative studies of the economic theory of markets and its application to practical affairs." Hayek's prescription would later be the model for the IEA, according to Cockett. Some liberals felt this approach was too slow, but soon enough it would be contributing, in Cockett's words, "to changing governments' policies through members' roles as advisers or policy-makers".

4. Since its re-establishment in 1815 at the Congress of Vienna, Switzerland with its secretive banks has functioned as a haven—a special-operations piggy bank, some have said—for the European aristocracy.
5. Hunold, "The Story of the Mont Pelerin Society", address to the 9th meeting of the Mont Pelerin Society, 8 September 1958.

6. "The creation of the worldwide casino", in Who ended the Bretton Woods system and opened an age of infinite speculation?, ACP pamphlet, 2021, summarises Warburg's establishment of these US dollar markets located outside the USA.
7. Bruce Caldwell, "Mont Pelerin 1947", Chapter 6 of *From the Past to the Future: Ideas and Actions for a Free Society* (Hoover Inst., 2020).
8. This evil philosophy is fully documented in "Friedrich von Hayek, Fascist Ideologue", *New Citizen*, April 2004.

Fisher was tight with the City of London bankers who backed the MPS. He worked with colleagues of Suenson-Tayler, including Oliver Smedley, an accountant who quit the profession to campaign for free trade, and S. W. Alexander. The latter, founder of the Society for Individualists, had departed Canadian-British newspaper publisher Lord Beaverbrook's media empire at the close of the war to head up Drayton's *City Press* newspaper, the first newspaper of the City of London,[9] for which Fisher had once written. Smedley joined Fisher in setting up the IEA in late 1955.

While all 39 participants at the April 1947 MPS summit agreed on the precedence of the individual over the state, there were differences of opinion on how to achieve the new association's aims. "Hayek and others believed that classical liberalism had failed", including the *laissez-faire*, open slather approach; they thought the state should establish a framework, a "competitive order", for the free market.[10]

Mises clung to the old approach. His vision for the new order was so extreme that he considered some of the invited participants "outright interventionists", he told Hayek in a letter ahead of the summit, while even some economic liberals were horrified at Mises's fanaticism and tirades. Princeton economist Frank Graham intervened at Mont Pelerin to say: "Perfect freedom exists in the jungle. There is no law there. I think if we carry out the suggestions of Professor Mises we shall be in the jungle. ... It seems to me that unless government takes the active role to maintain competition, competition will not be maintained." At one point, economic historian and MPS supporter Caldwell writes, "Mises purportedly 'stood up, announced to the assembly "You're all a bunch of socialists", and stomped out of the room'".

French economist Jacques Rueff (later an adviser to President Charles De Gaulle) observed of the Mises-type radicals: "According to them, any intervention of the state in the economic life... would lead inevitably to a completely collectivist Society, Gestapo and gas chamber included." This is what Mises had contended in his 1922 book *Socialism*—that *any* government intervention equated to the state acting on behalf of the Common Good, which was anathema in his view.

Milton Friedman raised the need for a "rules-oriented monetary policy", in Caldwell's words, to ensure financial stability.

United in their opposition to government intervention on behalf of the people, MPS members set out to gain hegemony over every aspect of society, politics, academia, media, business and more. Beginning in the 1950s, over 100 neoliberal think tanks, operating in concert across borders, were established to direct policy into the neoliberal stream. Today the MPS has some 500 members, and over 250 organisations are run by MPS-affiliated individuals. These include flagship entities such as the IEA and Adam Smith Institute, plus others that routinely push war and austerity, such as the Cato Institute, the Hoover Institution, the Heritage Foundation and the American Enterprise Institute.

Australian MPS fronts included the Institute of Public Affairs, the Centre for Independent Studies, the HR Nicholls Society and the Tasman Institute.[11] Such was their clout, that Milton Friedman *personally* came to Australia to advise the 1981 "Campbell Committee" Financial System Inquiry. Campbell's radical free-market "reforms" were blocked by Liberal PM Malcolm Fraser, but delivered in full by his successor, Labor's Bob Hawke. The Campbell Committee defined the central bank's mandate as keeping down inflation, regardless of the economic impact, and outlawed national banking. From these principles a new "bipartisan economic consensus" emerged, under which both major parties adopted neoliberal economics as dogma.[12]

Friedrich von Hayek (left) addresses the inaugural Mont Pelerin Society summit, 1947.

A word on Keynes

British economist John Maynard Keynes sat on the Court of Directors of the Bank of England when, in 1944, he led the successful fight to save the BIS at Bretton Woods. Already in the 1930s, Keynes's proposals for increased public expenditure—not unlike the quantitative easing of recent periods—had been built up as the supposed "alternative" to austerity. But though future Mont Pelerinites (like Hayek's mentor in Britain, economist Lionel Robbins) clashed with Keynes, arguing for continued austerity, the two schools of thought were merely different strains of the same liberal monetarism.[13] In his 1936 *General Theory of Employment, Interest and Money,* Keynes made explicit that he was not disposing of liberalism, only suggesting, given the circumstances of the times, a more conducive environment within which "free market" forces would still reign.

In fact, Keynes was every bit as much an operative of Montagu Norman's Treasury/Bank of England nexus of bankers who invented the austerity doctrine as the Hayekians were. Keynes was trained and financed by Cambridge economist Alfred Marshall (1842-1924), who devoted his career to destroying the American System of national credit. Marshall had developed his monetary theory in parallel with Austrian school founder Carl Menger, upon whom Hayek's teacher, Mises, had modelled himself. Keynes and Hayek frequently gushed over each other; after reading Hayek's *The Road to Serfdom*, Keynes noted that he was in "deeply moved agreement" with its thesis.

Monetarism of both varieties put balance sheets and financial stability ahead of people, at any cost. Keynes even admitted, in the introduction to his *General Theory*—first published in Nazi Germany in 1936—that his program would work well under "the conditions of a totalitarian state".

The liberal international order

Despite proclaiming unbridled freedom for individuals and the market, Mises and Hayek insisted on a global, private "superstate" to enforce neoliberalism. In his 1927 book *Liberalism: The Classical Tradition*, Mises called for "a world

9. "What is the City of London Corporation?" (in ACP pamphlet, Note 3).
10. Dieter Plehwe, *The Road From Mont Pelerin: The Making of the Neoliberal Thought Collective* (Harvard University Press, 2009).
11. The Australian case of the MPS's hijacking of economic policymaking is documented in "Mont Pelerin's Puppets: The Liberal and Labor parties", *New Citizen*, April 2004.

12. "A bank for the nation", ACP submission to 2022 RBA Review, 31 Oct. 2022.
13. "Two varieties of monetarism: the Keynesian and 'Austrian' foes of real economic progress" (in ACP pamphlet, Note 6).

super state". The classical liberal, he wrote, "sees the law of each nation as subordinate to international law, and that is why he demands supranational tribunals and administrative authorities". Hayek touted the necessity of such a power in *The Road to Serfdom*: "an international authority which effectively limits the power of the state over the individual". In a 1939 article, "Economic Conditions of Inter-State Federalism", he elaborated his call for supranational institutions, supposedly to protect economic freedom.

Luigi Einaudi, who had been an early adviser of Mussolini on his Fascist economic policy, concurred. Then-Bank of Italy Governor Einaudi could not attend the 1947 MPS summit, but, as a friend of Mises and visiting scholar at the Graduate Institute, he had pushed vigorously for keeping governments out of the market altogether. In 1948, by which time he was President of Italy, Einaudi called for "the creation of a power above that of individual sovereign States".

"Einaudi believed", wrote Italian economist Fabio Masini in 2012, "that only as an international project, could liberalism aspire to win the struggle against other ideologies".[14] Since 1918 he had advocated the forcible limitation of national sovereignty. In the 1940s he called for a European Federation, to take away the possibility of government spending funded by printing money, i.e. with national credit, and to force governments to cover budget spending from current revenue. Einaudi worked with MPS member Lionel Robbins, who had attended Mises's private seminars, to draft a federalist Manifesto for a United Europe.

With such schemes, the neoliberal international faction aimed to prevent Roosevelt's anti-colonial, nation-building Bretton Woods vision from re-emerging. A major stepping stone to today's neoliberal, "rules-based" world financial order was the formation of the European Union, which took place over four decades, from 1948 to the Maastricht Treaty of 1993, with support and promotion by the BIS. The concept of the EU was to bind European nations to a supranational authority, preliminary to the subjugation of *all* nations. Through the deregulation of finance that accompanied this project, the physically weakened British Empire began to reconstitute itself as what would later be called an "informal financial empire".[15]

Financial reorganisation was kicked off in 1948 in the process of administering the Marshall Plan, which was ostensibly designed to rebuild Europe, but explicitly excluded the USSR. In 1950 the BIS hosted the set-up of the European Payments Union (EPU) to manage Marshall Plan funds. In the process, the 18-nation EPU "removed a thicket of regulations governing European trade".[16]

In 1951 the BIS fashioned financial arrangements for the European Coal and Steel Community (ECSC), the first incarnation of the European Union. The BIS continued to host events and provide staff and infrastructure for the single Europe drive all the way through to full realisation of the EU.

14. *Luigi Einaudi and the Making of the Neoliberal Project* (Social Science Research Network, 2012). Einaudi founded a neoliberal school of public finance economics at Bocconi University of Milan, which operated in parallel with MPS outfits and developed a close partnership with the LSE.
15. Katherine West, "Economic Opportunities for Britain and the Commonwealth (RIIA Discussion Paper)", (Royal Institute of International Affairs, 1995).
16. Adam Lebor, *Tower of Basel: The Shadowy History of the Secret Bank that Runs the World* (Public Affairs, 2013).

Also in the 1950s, and in parallel with the EU's emergence, Siegmund Warburg's invention of the Eurodollar market ripped up financial regulation. The offshore trading of the dollar initiated the financial globalisation that spelled the end of the Bretton Woods system of fixed exchange rates for national currencies. In the 1960s the Bellagio Group of MPS regular Fritz Machlup, an Austrian immigrant to the USA, ran an international campaign against Bretton Woods and its fixed exchange rates, leading up to their abandonment by the United States on 15 August 1971. In the new, floating-rate system, the preponderance of international foreign exchange transactions quickly shifted from currency conversions needed for trade in physical goods, to speculation on the relative prices of the currencies themselves.

The Eurodollar market became an offshore, lawless financial zone outside the jurisdiction of any sovereign nation. It "was the invisible financial counterpart of the Mont Pelerin Society's ideological insurgency", wrote British author Nicholas Shaxson. "While the [MPS] ideology provided the enabling environment, it was this new London market and its subsequent spin-offs that ultimately forced through the liberalisation of the world economy, whether the world's citizens liked it or not."[17]

The consensus in favour of the scourge of neoliberalism, which the MPS had been attempting to fabricate and make global since the end of World War II, took hold in the Anglo-American centres of power after the 1971 demolition of Bretton Woods. Landmark events included the advent of Thatcherism in the UK and deregulatory Reaganomics in 1980s America, along with the City of London's "Big Bang" financial deregulation in 1986. In Australia, the 1980s banking deregulation made our country the haven for white collar crime it is today. Teamed with features adopted from Italian Fascism, these ideologies have had a devastating impact on nations and on lives, in some cases (such as Augusto Pinochet's Chile in the early 1970s) being enforced with overt fascism.

In the 1990s the neoliberals' term "liberal international order" was prettied up as "rules-based order".[18] It means private control of crucial sectors of the economy; banning, under the guise of preventing inflation, government-issued credit for nation-building; and the protection of "financial stability" to the detriment of real development or national sovereignty. Nations risk exile from the "rules-based order" and cut-off from international finance if they refuse BIS "recommendations".

Handing control of economic policy to private powers—the very essence of the British project trialled in Austria and of Fascism in Italy—is the central concept. Von Mises summed it up in *Nation, State, and Economy* (1919): "Liberalism, which assumes full economic freedom, tries to solve the difficulties which the different political institutions pose to the development of the market, *detaching economics from the State*." (Emphasis added.)

Neoliberalism represented a whole new ballgame: a global liberal system, enforced top-down with the *illusion of freedom* at the local level. It is the fascist corporative state on a global scale, also known as the rules-based order.

Next – From Austria to Australia: Niemeyer's austerity plan

17. Nicholas Shaxson, *Treasure Islands: Tax Havens and the Men who Stole the World* (Vintage, 2012).
18. Ben Scott, "Rules-based order: What's in a name?", The Interpreter, Lowy Institute, 30 June 2021.