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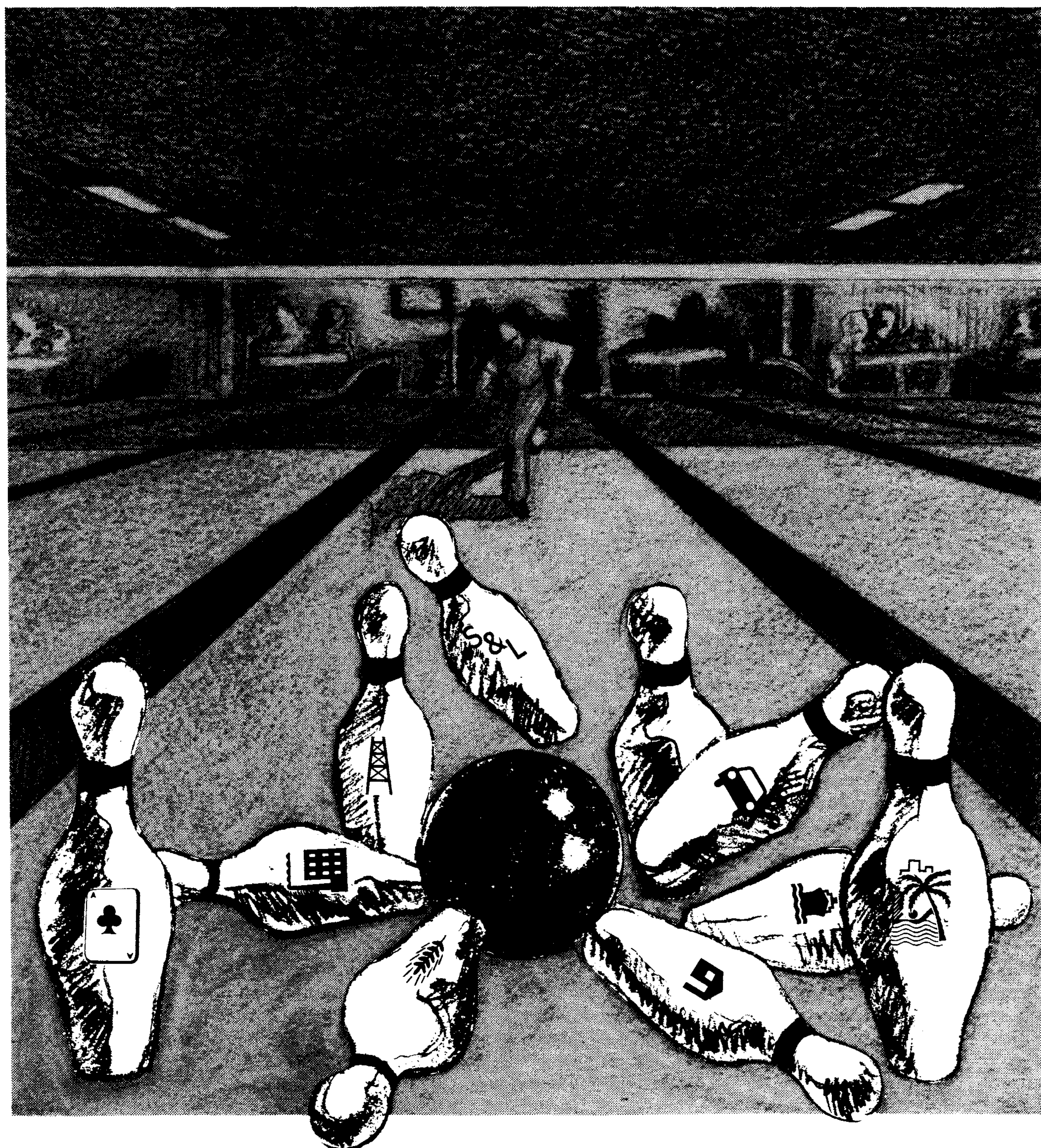
DEPRESSION

Who will Volcker bring down?



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Exclusive: Secret auto memo warns of 300,000 layoffs by Christmas

A secret policy memorandum issued by chairmen of the nation's auto corporations—yet to be released—warns the industry's top-most management to expect a 20 percent decrease in auto production by no later than December. The memorandum, called a "blue letter," tells corporate executives to "brace yourselves." The collapse in the auto industry will produce 300,000 layoffs by December or absolutely no later than January.

The memorandum further reveals that by no later than April the effects of the collapse of auto will bring about similar devastation in the feeder industries of steel, glass, and rubber.

This report, which *Executive Intelligence Review* has authenticated, leaves no question that the depression emerging in the aftermath of Federal Reserve chairman Paul Volcker's Oct. 5 announcement of "fiscal austerity" is on a scale of severity more comparable to the 1929-1931 depression than to any postwar recession. The "blue letter" demonstrates that unless the policies of the Fed chairman are reversed, the United States will be in a depression by Christmas.

In our last issue, the first analysis of the Volcker program using *EIR's* Riemannian model projected an aggregate 15 percent dropoff in the economy's tangible output by the end of 1981, or a trough twice as low as that of 1975.

The Riemannian model was specifically designed to analyze major points of economic discontinuity which conventional economic models utterly fail to address. The model was developed on a proposal from economist Lyndon H. LaRouche, Jr., now a Democratic candidate for President.

The projected cutback in the auto industry—that is, the backbone of the U.S. economy—confirms the model's results. It indicates more: that that aggregate reduction will take place in the first half of the new year. Mack Truck already announced Nov. 1 new production cutbacks, bringing its overall level to *20 percent lower than two months ago*.

Ford announced the same day another 10,000 so-called temporary layoffs, putting the total volume of auto layoffs to date close to 100,000.

The news from Detroit, furthermore, puts the administration's proposed $1.5 billion in loan guarantees for Chrysler Corporation in a somewhat different light. It is not a bailout of Chrysler. Whether or not Chrysler is able to avoid bankruptcy during the next few months, it is clear that the company will not be producing many automobiles.

The package for Chrysler outlined at a Nov.1 press conference is one sign that the current administration is prepared to let the auto industry go. According to Treasury Secretary G. William Miller, Chrysler employees will have to contribute $400 billion up front to activate the federal guarantees, in the form of wage postponements and contributions from the union's pension funds. By the end of the year, most of these employees will not be working for the company they helped bail out.

Most large corporations have given Volcker grudging support during the last several weeks, but the ferocity of the collapse now pre-programmed for the next two months is beginning to shake up some corporate headquarters.

Riemannian analysis shows how Volcker's policy will bring down economy

A "spectral analysis" computer-profile of the U.S.

economy this week has shown precisely who has been targetted for bankruptcy by Fed chairman Paul Volcker and his collaborators in the New York and London banking community. The analysis goes sector by industrial sector, examining their performance capabilities under the conditions defined by continuation of the Fed chairman's interest-rate regime.

Aggregately, Volcker's action will rip the guts out of the U.S. industrial economy. Specifically, the computer projection demonstrates the "selective" effects of Volcker's policy, as a matter of sabotage directed at those leading industries essential to the economy's overall economic performance.

Last week, *Executive Intelligence Review's* computer-based econometric model of the United States economy projected an aggregate 15 percent loss in real output over an eight-quarter, continuous downturn through the end of 1981. Now, that technique has produced results for the different sectors of the economy, based on the 20 Standard Industrial Categories employed by the United States Department of Commerce, plus five additional categories, agriculture, construction, utilities, mining, and transportation.

The first victims of economic murder, the analysis shows, will be auto, construction, and agriculture.

How it was done

To conduct a disaggregated analysis of the United States economy, the model draws on Bernhard Riemann's

mathematical discovery, "spectral analysis." Spectral analysis compares the differential behavior of a group of physical sectors with varying susceptibility to a given factor or group of factors. In this case, the factor chosen to measure the effects on the different economic sectors of Volcker's liquidity squeeze was the corporate liquidity ratios as reported by the Federal Trade Commission.

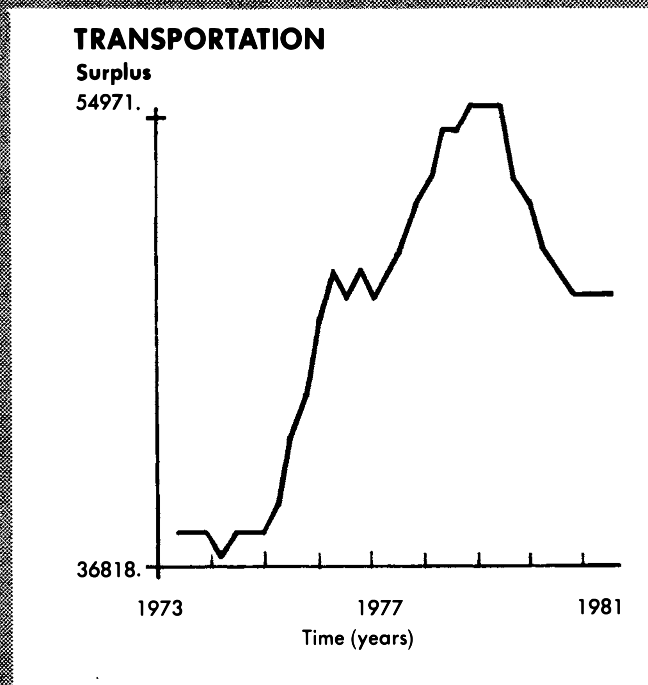
In effect, the 25 sectors of the economy were each assigned a "frequency" on the basis of their relative liquidities; the efficiency of that approach touches upon the fact that Volcker's "anti-inflation" measures are actually *hyperinflationary* in a special way. The measures force industrial corporations to refinance held-over debt burdens at even higher carrying costs, which will force them to inflate prices to the consumer in order to recoup some portion of the added costs of new money. Because the consumer market is itself contracted by the Fed actions, higher prices lead straight to market collapse. The relative liquidities of industrial sectors, therefore, determine which sectors go bankrupt sooner, and which later, as force-fed price inflation collapses their markets.

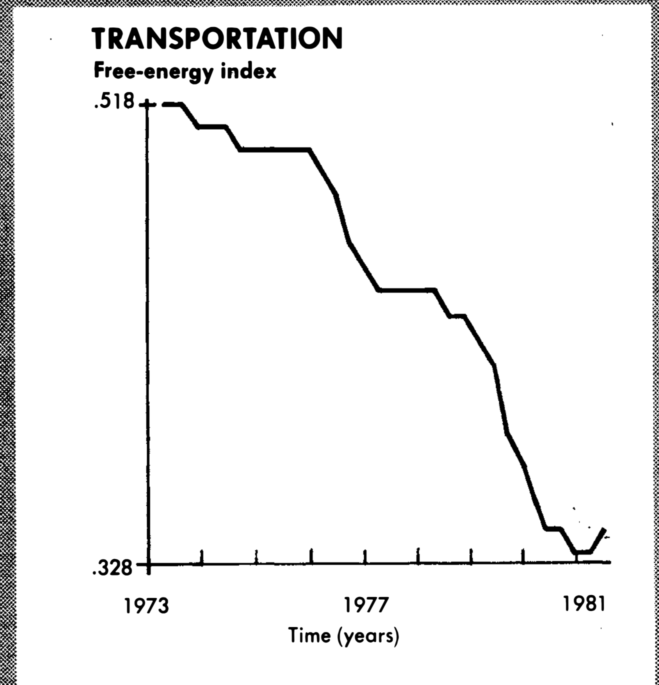
The conclusions

The conclusions of the study are as follows: the industrial core of the economy, particularly the automotive industry, will suffer the most, along with agriculture and construction. Some sectors, particularly consumer sectors subject to relatively inflexible demand, will suffer relatively less, including SIC 21, tobacco and related products, and SIC 22, textiles. Overall, the total economy will drop about 15 percent into the negative by the end of 1981.

These estimates parallel closely the documentary evidence now available. In broad terms, we are speaking of an industrial downturn twice as bad as that of 1974-1975, worse than 1957-1958, and in fact, on the scale of 1929-1931. The projections end with 1981, and show

U.S. economy: The effects of Volcker's credit policy





absolutely no sign of recovery. Therefore, it is entirely possible that the potential downturn is on the order of 1929-1933.

Thus far, there is one critical piece of documentation that these results are highly accurate: a "Blue Letter" circulating among Ford Motor Co. top management, announcing an 18 percent cutback in operations by Dec. 15, and warning that the total volume of auto layoffs will reach about 300,000 by the end of 1979, in a downturn much worse than that of 1957-1958.

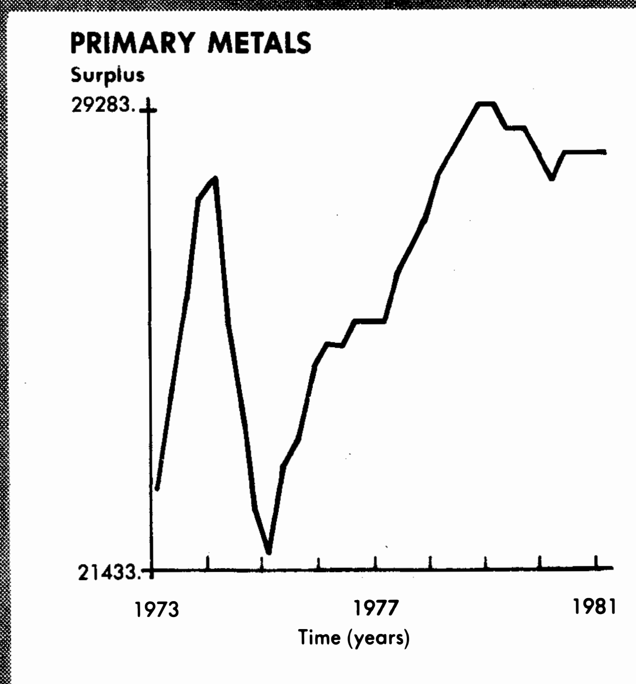
Again, in broad terms, this internal projection from top auto management coincides with the computer-generated prediction that the downturn will be twice as bad as that of 1974-1945.

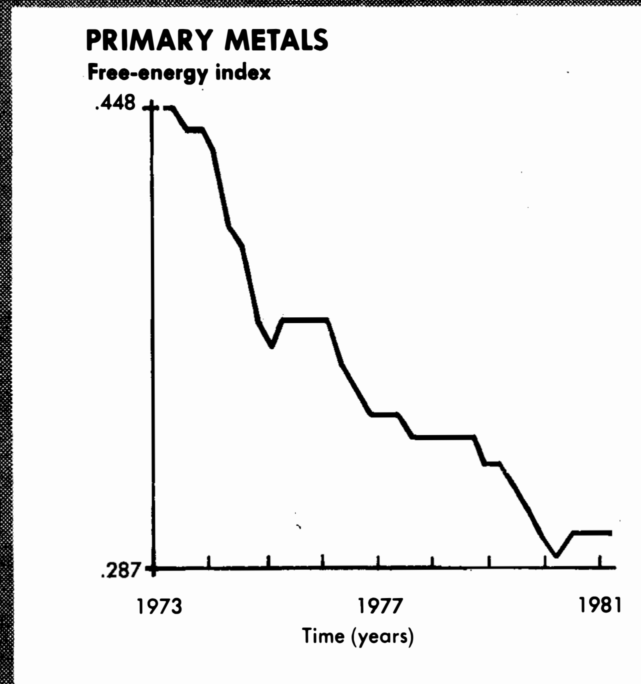
Origin of the model

The Riemannian economic model was proposed by economist Lyndon H. LaRouche, Jr., and realized by Fusion Energy Foundation scientists Uwe Parpart and Steven Bardwell. Data base for the model was developed by EIR's economics staff. Mr. LaRouche is currently a Democratic candidate for the U.S. Presidency, and has employed the model's results in his campaign statements.

The Riemannian model is fundamentally different from "conventional" econometric models of the Wharton type in two ways.

First, it analyzes the causal relations among the sectors of tangible production, instead of trying to establish correlations between different components of "Gross National Product." Such correlations are notoriously inaccurate even during periods of economic stability, and wholly useless during periods of basic economic change. The Riemannian model eliminates Gross National Product entirely as a measure of economic activity. Instead, the model divides the tangible output of the economy (or economic subsectors) into





variable capital (factor cost), constant capital (user cost), overhead or non-productive costs, and reinvestible surplus. The rates of change of these categories are established by differential equations expressing the ratios among them.

The ratios are the rate of production of surplus, or "free energy" index; the division of investible surplus between factor and user cost, or c and v; and productivity, or the rate of new factor cost inputs required to produce a given volume of surplus.

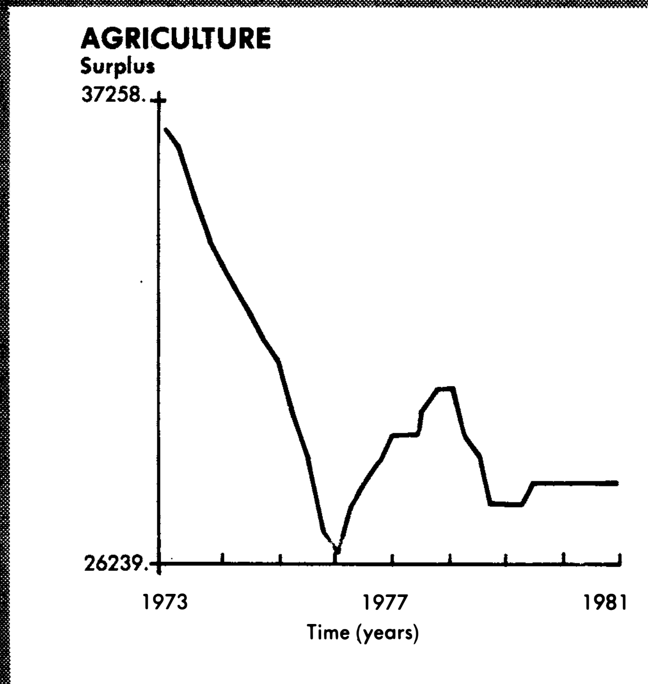
Nonlinear mathematics

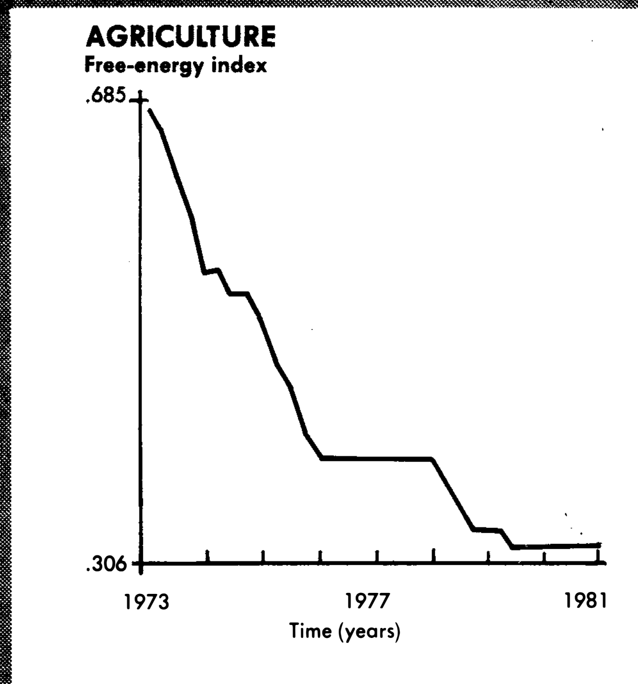
Secondly, the Riemannian model's mathematics—named after Bernhard Riemann—are on an entirely different plane than the glorified arithmetic of the conventional models. The Wharton-type model uses a long series of linear equations to relate constituent parts of GNP to each other; the computer performs a great deal of simple addition through highly-complex formulae. However, the statistical error present in data, when added up, produces a gross possible error range larger than the tolerable range of meaningful forecast results. Statistically, the conventional projections are meaningless.

The Riemannian model employs partial differential equations relating "geometric features" of the economy to each other, and, in the case of the 25-sector model, simultaneously solves 75 differential equations.

Therefore, the model can examine the behavior of linked differential equations under different conditions, and is designed specifically to indicate major points of economic discontinuity—the subject of Riemann's research into "shock waves" and other physical phenomena.

The "spectral analysis" feature of the multi-sector model permits the user to see the differential impact on each of 25 (or more) sectors of a given global change or group of local changes in economic conditions.





For purposes of the projection, whose results appear in part below, non-deflated Commerce Department data were employed (a projection with deflated data is currently in preparation). As in the earlier-published projection using aggregate data for the U.S. economy, it was assumed that Volcker's credit-tightening measures would result in an 8 percent reduction in surplus available for reinvestment.

The 8 percent reduction was arrived at by examining the current liquidity position of corporations and households, noting that the rate of short-term credit creation during the second and third quarters exceeded the rate of inflation (and the rate of nominal GNP growth) by that amount, indicating a liquidity deficit of 8 percent.

The surplus reduction was then spectrally assigned to 25 sub-sectors of the economy on a proportional basis, using FTC liquidity data. Using the FTC's ratios relating (by standard industrial category) short-term assets to short-term liabilities of corporations, the program assigned greater or lesser shares of the surplus reduction to each sector in proportion to the sector's deviation from the mean liquidity ratio.

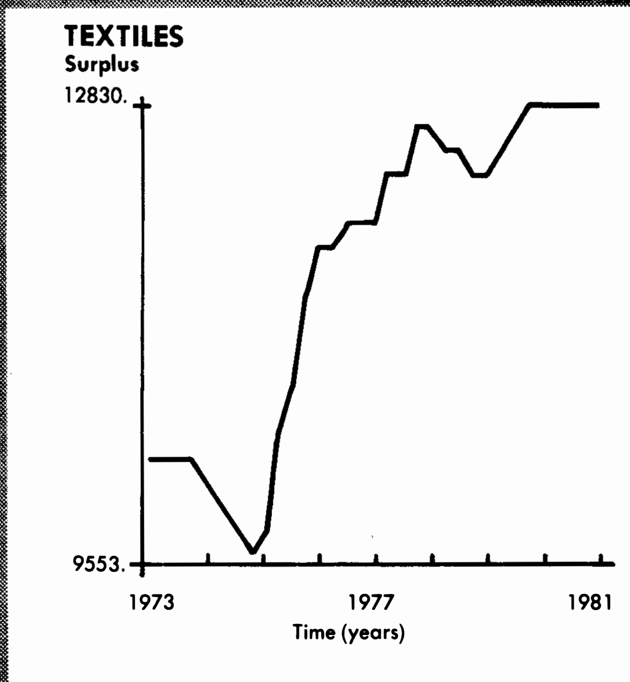
The printout

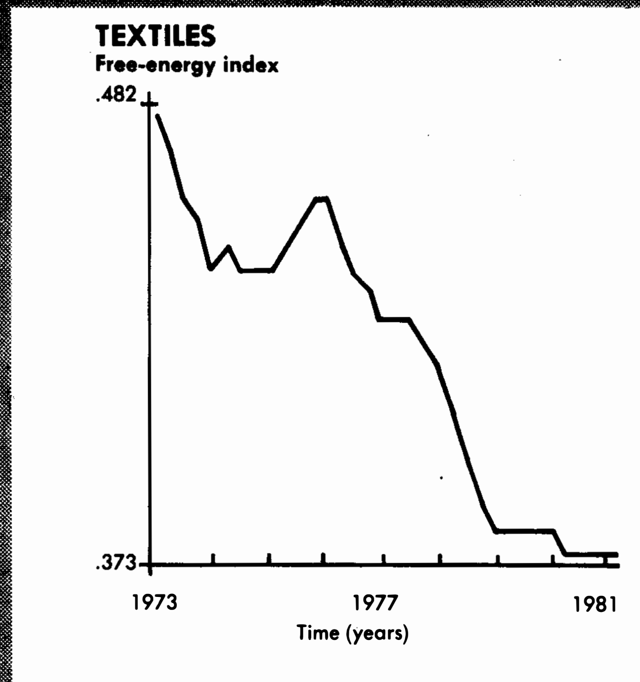
The graph labelled S′, or reinvestible total economic surplus, shows a dropoff from a high of $179 billion in 1978 to a negative surplus (or net contraction in output) of $21 billion by the end of 1981. Recalling that these are non-deflated numbers, the total reduction is approximately 15 percent, in terms of real output.

The next graph for the total economy, showing the rate of total surplus creation or $s'/(c+v)$, also drops sharply into the negative. Using a slightly different data base, these results are identical to the aggregate results published in EIR's last issue.

Auto

The graphs for the Transportation Equipment sector, which includes the auto industry, show spectacular





dropoff in both total volume of sectoral analysis and, more importantly, rate of surplus creation. (Sectoral surplus for an individual sector will never drop off as quickly as the S′, or total economic surplus, because the sectoral surplus is calculated before total economic overhead is calculated. Economic overhead costs are assigned to the aggregate economy and not to individual sectors, for obvious reasons.

Agriculture

Agriculture shows a period of decline through the 1973 recession; a modest improvement in total surplus production (and stabilization of the rate of decline of the free energy ratio) through 1976 to 1978; and a negative growth rate during 1979-1981. This corresponds to agriculture's notoriously poor liquidity position and access to credit in a period of crunch (short of expansion of the Farm Credit System and similar facilities).

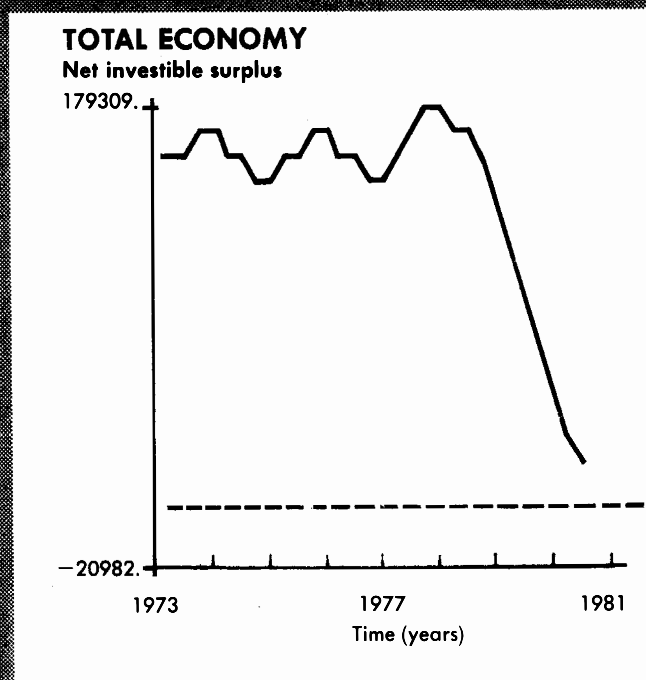
Metals

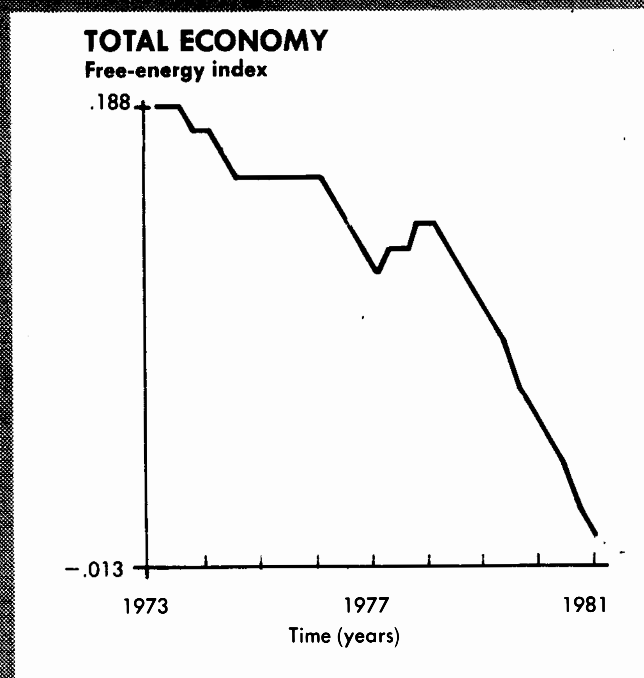
The graph for metals production shows a drop in the rate of surplus creation
barely .2 at the end of 1980. However, the metals sector indicates a hint of recovery potential, or at least of stabilization at a very low level of activity, by the end of 1981.

Textiles

Textiles go through a recession, in terms of rate of surplus creation, albeit a relatively mild one. In nominal terms, output remains steady, which means a fairly small dropoff in real output. The same pattern applies for most of the consumer non-durables sector, including food processing, tobacco, and apparel, which are the last items to be eliminated from the household budget.

—David Goldman





Britain caused the 1929 crash

The 50th anniversary of the 1929 stock market crash was marked this week. In commemoration, a slew of both "fiscal conservative" and "liberal" economists have gone into print declaring the inevitability, indeed the necessity of Federal Reserve Chairman Paul Volcker's credit measures against the U.S. economy. Then as now, they say, the people of the United States must endure a decline of their standard of living.

This is no mere show of economic incompetence. These same economic wizards are up to their necks in formulating and carrying out the policy put forward by the New York Council on Foreign Relations in their policy magnum opus "Project 1980s." The U.S. economy must undergo "controlled disintegration," a good old fashioned unraveling of the U.S. economy that will finally thrust Britain into the prominence it once enjoyed.

In distinction, Lyndon H. LaRouche, Jr. is the first and only economist to show that there is no "inevitability" to a depression. As the previous article shows, Volcker's policies have deliberately targeted sectors of the U.S. economy for collapse. LaRouche's "Riemannian" method enabled him to predict the recession of 1957-58, the slowdown of the 1960s, and what then Treasury Secretary John Connally's early 1970s measures would mean for the U.S. and world economy. That same method is the basis for finding a way out of Volcker's depression through a high-technology program of domestic production and exports.

In February 1978, authors David Goldman and Richard Schulman applied this method to the study of the Crash of 1929—who created it and why. "Britain Caused the Crash of '29" warned that Britain was prepared to try it again. America's credit system faced a catastrophe due to the explosive creation of fictitious liquidity in the Eurodollar market and related speculative ventures at home. As in the 1920s, the crisis stemmed from British control of international lending policy and manipulation of American capital. Once more, the American economy is in a systematic decline, the authors warned. The root of the deterioration is the stagnation and present-day decline of American exports, due to British manipulation of international credit flows into speculative sinkholes.

The events of today bear out these warnings. As in the Crash of 1929, the Federal Reserve is working hand in glove with Britain. Every move by Volcker was first discussed with his counterparts in Britain. And like the Crash of '29, how the depression unfolds is a matter of deliberate policy making.

When Volcker announced his tight credit policies, LaRouche, now a Democratic candidate for President, warned that if not reversed Volcker's policy will mean depression. He called for Volcker's resignation before Britain and their anglophile allies succeed in causing a second Great Depression.

Executive Intelligence Review reprints below "Britain Caused the Crash of '29" which first appeared in the twice weekly newspaper *New Solidarity*.

The floor of the New York Stock Exchange, Oct. 24, 1929: clerks in shirtsleeves chalk up, rub out, and frantically chalk up again prices that show the market value of American industry has collapsed by ten percent over the morning. The ticker has fallen hopelessly behind, as sell orders from across the country swamp the trading floor. Big blocks of equity find no buyers. A crowd has gathered outside the marble pillars of the Exchange. At the Morgan Bank on 23 Wall Street, New York's leading bankers devise secret, fruitless plans to quench the panic. The Great Depression has begun.

Overlooking the scene of chaos, in the visitors' gallery, stands a short, dog-faced man, who watches with a grim feeling of accomplishment. The enemy has been put to rout, he must have thought to himself. He wrote later:

> The whole wealth so swiftly gathered in the proper values of previous years vanished. The prosperity of millions of Americans had grown upon a gigantic structure of inflated credit, now suddenly proved phantom.

The name of the watcher in the visitors' gallery was Winston Churchill. He had reason to gloat. The 1929 crash was a British operation. It signalled the end of a period of economic expansion greater than any Americans have known since, and closed the door to any American attempt at world economic leadership.

Documents that prove that the City of London conspired to bring on the crash are in the public record. An official Federal Reserve memo dated Feb. 7, 1929 notes that the Bank of England demands that American interest rates

> be raised, at some unspecified time by a full one percent with a view to breaking the spirit of speculation, and then subsequently if necessary by another one percent, in order to provoke liquidation, and then after a fall in the stock market similar rate action at the first sign of the next revival. By thus prostrating the stock market ... we should be cutting at the root of the current situation.

In a Feb. 4, 1929 cable the Governor of the Bank of England, Montagu Norman, wrote:

> A scramble for gold is threatened. This threat arises from credit position in the United States as shown particularly by abnormal Call and Time rates (short-term money rates—DG) which appear to be due to Stock Exchange speculation. Therefore expectation is that Boston and/or Philadelphia (Federal Reserve Banks—DG) will recommend one percent increase in Bank Rate on 6th or 13th. ... Further increases may follow if needed to adjust credit position.

That cable informed the Bank of England of Montagu Norman's agreement with the New York Federal Reserve Bank to provoke a stock market crash, the same discussions recorded in the above citation.

On Black Thursday, Oct. 24, Montagu Norman cabled the New York Federal Reserve with congratulations—before the panic had actually occurred!

> Recent liquidation in your stock market and reduction in call money rates have been satisfactory and have helped to reestablish (Britain's—DG) international position.

As the cited cables state, the Bank of England and the New York Federal Reserve conspired to put up interest rates and take related measures to choke off the flow of funds into the stock market. In September, the Bank of England raised its discount rate from 5.5. percent to 6.5 percent in order to draw funds off from the New York market, while the Federal Bank of New York did as much as it dared to tighten credit at the source. Seventeen days before the crash, then New York Fed Presi-

> *"A Feb. 4, 1929 cable informed the Bank of England of Montagu Norman's agreement with the New York Federal Reserve Bank to provoke a stock market crash. . ."*

dent George L. Harrison bragged about the success of the credit squeeze:

> The policy which we adopted early in August, of putting out funds through the bill market under the protection of an effective six percent rate, has thus far worked much better than I had even dared hope. Bills (trade-related paper—DG) have gone up, discounts (Fed issuance of direct credits to banks) have gone down, and the total volume of Federal Reserve credit has expanded only in proportion to the historic seasonal line ... we can continue this program so that the total volume of discounts in the system will gradually decline to a figure much less than we have averaged during the past year....

But as the crash demonstrated, further action was superfluous. The New York Fed, staffed by British collaborators from the Morgan bank, and the Bank of England, had brought the roof down.

These facts were well known and widely available. Also well known is that British Banks began withdrawing immense amounts of funds from the New York money market, which had supported purchases of stocks on margin. Britain's pound sterling, bled white by the drain of international money into the New York stock market boom, had undergone a spectacular recovery on the markets in October 1929, *before* Black Thursday, as the City of London sucked money in preparation for the crash!

In fact, no one at the time of the crash doubted that the British had done it. Another British vulture who descended on New York City to watch Black Thursday, London *Economist* editor Josiah Hirst, wrote later:

> I recollect at a London gathering of economists early in 1921 a discussion of the Stock Exchange boom in New York. ... We all agreed, I think that a slump or crash was then probable.
>
> The rise of the London Bank (of England) Rate to 6.5 percent on Sept. 26 precipitated the Stock Exchange crisis and slump of October.
>
> Whether the action of the Bank (of England) in raising its rate was right or wrong need not be discussed here ... the mob of small speculators held on till the last moment, whereas many of the big speculators, being better informed and impressed by the selling movements from London and the Continent, began to liquidate in September and unloaded their holdings on the market, which was consequently weakened.

In New York City, British-linked insiders, notably the financial page of the *New York Times* had been egging on the crash for months. In fact, by the time the panic struck, the Round Table's *New York Times* had declared a half dozen previous breaks in the market to be the Last Day for the hordes of sinning speculators. Why the lies? Coldly summarized, these facts leave no doubt that the City of London took willful action to pull down the world economy in the fall of 1929. They should erase doubt that the sixth-generation Rothschilds, Barings, and Hambros will flinch from intentionally destroying the American banking system today, the way the fourth generation of Rothschilds, Barings, and Hambros intentionally destroyed the New York Stock Market. Why all the lying, then, about the origin of the Great Depression?

The United States did not have a depression because it had a stock market crash. It had a stock market crash because British control of the international markets created a depression. Above all, the financial policies of British Treasury minister Winston Churchill, the ghoul of Black Thursday, wrecked the post-war prospect of an American-led boom in world trade. Churchill's tenure as Britain's Chancellor of the Exchequer from 1924 to 1929 shut American industry out of world markets. In a close parallel to the London Eurodollar cancer during the 1970s, London bled American capital to revive the bankrupt financial empire of the pound sterling, at the direct expense of American industry. American acquiescence in Winston Churchill' world looting plan passed a death sentence on the American economy, marked by the 1929 crash.

From the disastrous 1919 Treaty of Versailles through to the 1931 collapse of the pound sterling itself, the bankrupt British provoked a series of economic disasters. They extricated themselves from each disaster by provoking a worse one. The great irony of 1929 is that the great stock market boom was the runaway consequence of Winston Churchill's 1925 attempt to repeg world currencies to a valueless pound backed only by borrowed American gold reserves. Once the City of London had transformed the world economy into a speculative madhouse, the world's free capital flooded into shares in American industry, the one viable sector of the international economy. When the flight into the New York stock market threatened to bring down the valueless pound, Britain conspired to collapse the market.

But the stock market crash set in motion the chain of events that led to the great chain-reaction bankruptcy of 1931 and brought down sterling. The City of London then played its last card: to place their agent Adolf Hitler at the head of Germany as a marcher-lord against the Soviet Union. London had already dug the 50 million graves of the next war.

That unspeakable string of British crimes is the hidden subject of the lies about the Great Crash. Canadian-born Professor John Kenneth Galbraith, an intimate of the Warburg banking family that played a key "insider" role in the crash itself, assembled the most widely read package of lies in his book *The Great Crash* (1954). An outspoken apologist for Hitler's Finance Minister Hjalmar Schacht, Galbraith denies that the credit policies of the Bank of England and their collaborators at the New York Fed created the mess:

> Far more important than rate of interest and the supply of credit is the mood. Speculation on a large scale requires a pervasive sense of confidence and optimism that ordinary people were meant to be rich. ... Sometime, sooner or later, confidence in the short-run reality of increasing common stock values would weaken. When this happened, some people would sell, and this would destroy the reality of increasing values.

I.e., a burst of madness created the speculative wave, and "the ten good years of the Twenties had to be paid for by the ten bad ones of the Thirties."

The other side of Galbraith's clipped coin is the lie that the American economy was "naturally" slipping into depression in any case, and that the stock market crash only hastened the inevitable. The centerpiece of this lie, which is a favorite of British writers, is the claim that capital investment rose too fast:

> Throughout the Twenties, production and productivity per worker grew steadily: between 1919 and 1929, output per worker in manufacturing industries increased by about 43 percent ... costs fell, and with prices the same, profit increased. ... A large and increasing investment in capital goods was a principal device by which the profits were being spent (Galbraith).

Therefore, "anything that interrupted the investment outlays—anything, indeed, which kept them from showing the necessary rate of increase—could cause trouble." In other words, the American economy collapsed because it was successful, because it did not follow the contemporary British model of deindustrialization! The New Deal myth of the "Mature Society," the grandaddy of all zero-growth, income redistribution programs, found rationalization in this lie.

But there is a significant kernel of truth to sustain the "over-investment" propaganda line, which points to the crux of the entire subject. Between 1926 and 1929, capital investment in American industry rose at a compound annual rate of 11 percent—several times higher than during the last decade to the present. After the crash and subsequent financial disasters, capital investment fell to virtually zero. The entire workforce of the capital-goods industries found itself on the pavement. These workers ceased buying consumer goods, which shut down production in much of the consumer-goods industry. At the depth of the slump, industrial production had fallen a crushing 40 percent, total output of goods and services had halved, and unemployment was over 30 percent.

An American system economy based on high rates of technological progress must either grow at an accelerating rate or dissipate its energies into collapse. There is no in-between. For this reason, the strongest economy of the 1920s had the farthest to fall during the 1930s.

The supercilious Galbraith and his fellow liars demonstrate the opposite of what they intend: an American economy based on American System principles cannot exist in a world market ruled by Britain. There was not during the 1920s, nor can there ever be, a reconciliation between the American system and the British system. Once London chained the world economy to a system of war-debt repayment at Versailles, American industry was shut out from the world market. The decline of the world market ultimately prevented America from achieving the accelerating growth rate it had geared up for. London's domination of world financial policy created the theater for the sequence of British covert manipulation and haywire effects.

In the economic data of the 1920s, all this is immediately evident. Between 1921 and 1929, output of all industrial commodities for domestic consumption rose from $26 billion to $38 billion. As noted, capital investment rose at rates that dwarf anything since 1958. A

> *"Once London chained the world economy to a system of war-debt repayment at Versailles, American industry was shut out from the world market."*

good pointer is auto production: at 5,358,000 in 1929, new car registrations had almost reached the level of the height of the post-World War II boom in 1953, when registration totaled 5,700,000.

Exports, in complete variance, hardly rose at all. Foreign shipments stood at $3.3 billion in 1921, $3.7 billion in 1926, and a marginally increased $3.9 billion in the year of the crash. As a percentage of output, exports actually *fell* from 12 percent to 10 percent. In lockstep, the *rate of rise* of production began falling in 1926, from a 1921-1926 compound growth rate of over 11 percent a year, to a 1926-1929 rate of only 1 percent a year! By the summer of 1929, a few months before the crash, all major categories of production and transportation had already begun shrinking, a circumstance reported out of context by the "inevitable depression" liars.

What makes the stagnation of exports, which brought down the entire economy, especially shocking is that America was lending to foreign customers throughout the period at a rate greater than at the apex of the 1970s Eurodollar boom. In the six years 1924-1930, America lent over $3 billion to foreign countries. Foreign lending reached the incredible rate of $1 billion a year during 1928—at the precise point that exports started to fall. In the smaller scale of the 1920s, these numbers are indeed huge; total plant and equipment purchases during the period were only $17.3 billion.

How could this have happened?

The great betrayal

American foreign lending did the American economy no good because virtually all foreign lending was either to the City of London, or to investment sinkholes created by the City of London. It happened that way because Thomas Lamont of Morgan and Benjamin Strong of the New York Federal Reserve conspired with Winston Churchill and Montagu Norman of the Bank of England to make sure it happened. Billions in American capital were put to the service of the bankrupt pound sterling, in order to restore its status as the top international lending currency—which Winston Churchill attempted in 1925.

In a nutshell, the City of London blackmailed the world for the costs of servicing the monstrous war debt perpetuated by the British Round Table's Versailles "peace" treaty in 1919. A single fact about the monetary system of the 1920s makes all the later disintegration obvious: *debt service payments on war obligations were roughly equal to all other loans extended to all foreign borrowers for all purposes!*

Of course, the relationship between the Versailles Treaty's war debts, and the international lending during the 1920s, was not direct in the sense that every dollar lent immediately went to service war debts. Nor could it have been: international trade would have ceased to exist. Instead, the debts contracted through the end of 1919 were "restructured" into an even greater mass of longer-term obligations whose payment schedules stretched out through the next half-century, as shown by this table (in billions of dollars):

	War debts (as of 1919)	War debts after refinancing
Britain	4.604	11.0
France	4.625	7.547
Italy	0.631	2.685
Belgium	0.418	0.728

The bloated mass of debts cost almost $400 million a year to maintain, against a rough average of $600 million a year in new loans. No wonder, then, that American exports stagnated.

These numbers represent only the Allied interwar debt. Under British Round Table progeny Lloyd George's slogan, "Squeeze Them 'Till the Pips Squeak," the Round Table's Versailles Treaty imposed $33 billion in reparations on defeated Germany. That was equivalent to Germany's total production in a good year.

To nail the coffin lid shut, Montagu Norman and Benjamin Strong intentionally pricked the monetary bubble that had built up during the war years, throwing the United States into a brief but severe depression in

"Norman's boast that the crash had 'helped to reestablish Britain's international position' meant that American capital markets were Britain's for the picking once again. . ."

1921. Writing to his agent-of-influence Strong at the New York Federal Reserve who had engineered a credit crunch on Norman's orders, on the subject of the U.S. postwar economic boom, Montagu Norman fulminated:

> We are determined to stop this mad march of speculation and expansion, whether it be in securities, real estate, commodities or what not ... at last the first step has been taken towards freeing Federal Reserve rate policy....

for a deflationary coup. Norman's outburst was penned in January 1920. In December of that year, Benjamin Strong visited London and wrote back to his colleagues at the New York Fed that the Bank of England

> considers that general rate policy has so far been wonderfully successful although the position here might be better today had they been more drastic six months earlier(!). The fact remains that world deflation has been started.

The conspirators had instigated a "wonderfully successful" act of economic sabotage against the American economy, which threatened to shove the bankrupt British out of world trade. The effect was shattering. Prices in world trade fell cleanly to half their 1920 levels by 1922. In cold cash, that meant that the real cost of international debt service, in terms of deflated prices for goods, had doubled.

Although the sheer madness of London's manipulation is breathtaking, it was not unprecedented. Montagu Norman's ancestors did precisely the same thing after the William of Orange takeover of the English throne, in the Crash of 1696, and after the Napoleonic wars in 1816. Each time, the City of London debt-collectors compounded the world's misery by triggering a general deflationary collapse, in order to increase the relative value of their debt holdings.

With the United States in temporary decline, the British made their grand play at a meeting of world central bankers at Genoa in 1922: previously, Norman said, central banks has held their reserves in gold. That would no longer do. Henceforward, only Britain and the United States will hold reserves in gold. Everyone else will hold their reserves in pound sterling, or perhaps dollars—but principally sterling. Norman was asking for the world. London had consciously and deliberately destroyed what might have remained of Britain's industrial markets after the war. America's emergence as the one sound postwar economy prevented London from skimming world trade off the top through financial control, as it had done since 1782. So Montagu Norman wanted the world's foreign exchange reserves!

The Genoa meeting itself broke up without results, partly because President Harding's Treasury Secretary, Andrew Mellon, did not want to bail the British out, and put the Anglophilic Strong on a short leash. But two years later, Norman got precisely what he demanded on a silver platter, courtesy of the New York Federal Reserve and its backers at the Morgan Bank.

By 1925, the Bank of England, the New York Fed, and the Morgan Bank had ridden over Europe like the Apocalyptic horsemen. German reparations were refinanced through a 900 million gold mark loan organized by the Morgan Bank, under the control of future U.S. Ambassador to Britain Charles Dawes. The New York Federal Reserve's official historian wrote, "The vacuum left by the United States authorities was filled by (pro-British) J. P. Morgan and Co." Placed in charge, Hitler's future economic czar Hjalmar Schacht vigorously enforced the Dawes Loan provision that capital investment in the German economy cease. All of continental Europe, excepting France, was a protectorate of the Bank of England—directly in Central Europe, where Bank of England agents officially ran all central banking, and indirectly in Italy, where Winston Churchill's protégé Mussolini had seized power in 1922.

It fell to Chancellor of the Exchequer Churchill to announce the culmination of London's struggle to the top of the rubble heap. On April 1925, the dog-faced Churchill told the British Parliament that Britain had returned to the prewar gold standard, at the prewar parity of 4.85 pounds to the dollar. In fact, the rotten shell of the British currency was reinforced by hundred of millions of dollars cheerfully provided by British

agents-of-influence at the New York Fed and the Morgan Bank.

The betrayal of the dollar to the bankrupt pound was comprehensive. For six months prior to Churchill's gleeful announcement, Strong at the New York Fed dropped the bank's discount rate from 4.5 to 3 percent, and increased the money supply in the New York Federal Reserve District at an annual rate that, in present-day terms, would be the equivalent of 40 per cent a year! With the dollar weakened by this hyperinflationary burst, sterling was sufficiently "strong" to repeg to gold.

Together, Morgan and the New York Fed jointly bankrolled the "gold pound." The Federal Reserve became a virtual branch of the Bank of England in a $200 million credit line for support of sterling. In turn, the Bank of England pledged an equivalent amount, two-fifths of its own assets, to the New York Fed, and two central banks agreed to subordinate all American credit policy to the grand design of keeping the bankrupt pound afloat. Two weeks after the deed had been done, Churchill assured Parliament of a glorious pecuniary future for the "Empah."

On the contrary, the financial system immediately went haywire.

Creating the crash

Churchill's action was one of the most onerous in world financial history. Even the British Round Table saw how shaky their position was. Their agent, John Maynard Keynes, immediately opened a new flank, denounced Churchill in a pamphlet, and joined Sir Oswald Mosley, the future Führer of the British Union of Fascists. Working with Mosley, Keynes wrote the prototype fascist economic program in 1926, the forerunner of Schacht's "autarky"—which Keynes enthusiastically supported.

From the psychotic vantage point of a Churchill or Norman, there was one great money-wrench in the works: the still-prosperous United States economy. The City of London had virtually no funds of its own. It depended on loans from New York, which it converted into sterling and relent to Germany, Central Europe, and Australia. After great bursts of lending in 1924 and 1925, American capital suddenly became obstinate: during 1926 it flooded into the New York stock market and ignored London. Sterling tottered. Churchill had fits of apoplexy.

In panic, Schacht and Norman arrived in New York in July 1927, to persuade Strong to shovel more money into the system and save sterling. Strong—despite vehement opposition from the Chicago Federal Reserve Bank and the threat of congressional investigation—cut his lending rate from 4 percent to 3.5 percent, and bought dollar and sterling securities alike to pump money into the system.

Strong's second great dose of monetary inflation had horrible side-effects. Initially, it revived the outflow of funds—Britain's looting of American capital—to a then-stupendous level of over $1 billion during 1928. But it also set off a modest bubble in the New York Stock Exchange, whose shares doubled in value between the beginning of 1928 and the crash of Oct. 24, 1929. Relative to American industrial strength and the size of the American economy, the sudden takeoff in share values was less than a mortal problem. Britain had turned the world into a roulette table, and America was the only confidence-inspiring game in town. Funds pouring in from abroad buoyed the market, and the drain pushed sterling to the brink. As reported above, the City of London had resolved to kill the stock market by the beginning of 1929 at the very latest.

Norman's Oct. 24, 1929 boast that the crash had "helped to reestablish Britain's international position" meant, specifically, that the American capital markets were Britain's for the picking once again. The American securities markets did not collapse immediately after Black Thursday. On the contrary, Morgan and its allies raised a then-record $700 million in foreign loans during the first half of 1930.

What had collapsed was American industry's fighting spirit. Three years of stagnating production and exports had taken their toll on America's capacity to sustain the necessary rising rate of productive investment. The crash killed it. Britain's black operation created panic, which had its own self-feeding effects. Chief among these was the mammoth error of the Hawley-Smoot protective tariff, passed with the support of American industrialists and farmers who despaired of access to world markets.

In an act of supreme irresponsibility, the City of London had wrung the neck of the Golden Goose. The collapse of the American economy, the one pillar of world economic activity during the 1920s, brought world disaster. World trade closed down, prices fell by 1931 to half of their 1929 levels, and the big borrowers of the 1920s defaulted in a chain reaction.

Britain itself was nonplussed, shifting the worst of the 30 percent collapse of sterling's international parity onto its colonies, the price of whose raw material shipments to Britain had dropped 60 percent. The Hitler policy was in the works as far back as 1928, when Norman told a financier friend, "There will be no real settlement (in Germany—DG) without a crisis—real, and sufficiently real to frighten politicians and public."

—David Goldman
Richard Schulman