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The rise of fascism & the role of central bankers

1 message

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The rise of fascism & the role of central bankers

..and why Argentina's new President has a point.

ANN PETTIFOR

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Last week, the City of Dublin was cleaning up after a night of unrest which its commissioner of police, Drew Harris, blamed on a “lunatic hooligan faction driven by far-right ideology”.

Way down south in Argentina, a new far-right President emerged - 'The Chainsaw Man' - committed to 'anarcho-capitalism' and the destruction of the nation's central bank and currency.

These social and political eruptions are easily explained by high levels of economic insecurity in both Ireland and Argentina. More generally the worldwide rise of the populist and, in some cases, violent far-right movements is not irrational: it is driven by real forces, including:

Economic insecurity - caused by the financialisation of both the Irish, Argentine and global economy. Thanks to the wall of money that has flooded into the country and inflated property prices, **Ireland has a homeless problem**. 'Liberalisation' has made Ireland attractive for mobile Silicon Valley billionaires and their companies, and for migrants - and in the absence of public provision, these flows have increased tensions.

40% of Argentines **live in poverty** as wages have followed global trends, and fallen in real terms, while food prices have risen. Worldwide, financialised globalisation has led to an exponential rise in '**fictitious**' wealth, and to the increasing immiseration of the middle classes and homelessness of the poor - while free-roaming Wall St banks, private equity firms and hedge funds lord it over the world's people.

Its no wonder the public are mad as hell. So angry they are rejecting financialised capitalism and the social democrat and conservative political parties that uphold the international financial system. In the absence of more progressive leadership they are turning to the only political forces willing to attack the system - the far-right.

Global insecurity is heightened by *climate breakdown* - and the latest realization (from **Prof. Jim Hansen and colleagues**) that oceans are now absorbing more solar energy than before and are warming faster. As the comedian Jo Brand notes **in this fine video**:

| We're going to hell. But we're getting there faster.

That warming will lead to more floods and droughts on land, and to rising seas which will impact most heavily on the most vulnerable.

Then there's the insecurity brought on by *conflict* - the wars in Europe and the Middle East and the real possibility those conflagrations may incite the far-right leaders of both Russia and Israel to press the nuclear button.

All this leads to *political insecurity and social disruption* - a populist reaction, led by the far-right, to all of the above. The 'left', the progressive end of the political spectrum, is both silent or silenced, disorganised and largely detached from arenas of power. Trades unions while increasingly militant, have been weakened by anti-union legislation, failures of political leadership and a collapse in active membership.

The election of "El Loco"



No surprise then that the latest manifestation of the populist reaction was the election of a pro-bitcoin and far-right populist figure, the "El Loco" - Javier Milei - as President.

What caught my attention was Milei's determination if elected to replace the local currency peso with the US dollar, and to close down Argentina's central bank (BCRA) - which as [Forbes reports](#)

he labels a "scam" and an instrument for politicians to levy inflationary taxes on the populace. His views have found impact within Argentina's inflation crisis, with the Argentine peso experiencing in excess of **140% annual inflation** over the past year.

Dollarisation of the Argentine economy, has been tried before and has failed.

However, on the power of central bankers, Milei has a point - even though it is inchoate, confused and downright wrong. Wrong because his ambition for the 'dollarisation' of the Argentine currency, the peso, would merely outsource the economic policy Milei complains of, to another, foreign central bank - the US Federal Reserve.

To be caught in the grip of technocrats at the BCRA is bad; but to be subject to technocrats at the giant Federal Reserve would be far worse.

As to his general grievance towards the BCRA - I understand both his point and his pain. He is not alone. Only this week the British **House of Lords published a report** highly critical of the Bank of England.

Their lordships expressed this criticism in **the emollient terms of an educated elite**: but the attack was vicious all the same. Bank of England staff suffered from

...a perceived lack of intellectual diversity....which contributed to insufficient challenge as regards modelling and forecasts....

More strikingly (and reading between the lines) their lordships echoed concerns at the heart of President Milei's complaint: that 'independent' Bank of England technocrats serve and "reassure" global capital markets - and neglect the British economy. Or as their lordships put it:

The growth in the Bank's remit has not been met with a commensurate increase in accountability and Parliamentary scrutiny. While an independent central bank reassures markets, critically important economic decisions are delegated to unelected officials. The Committee is concerned that a democratic deficit has emerged, which risks undermining confidence in the Bank....

This general disaffection with central bankers is new. Until recently some were treated as gods. One, Alan Greenspan, governor of the Federal Reserve from 1987 - 2006 (!), was nick-named the 'maestro' and transformed into a kind of 'god' by investors and speculators active in capital markets. They hung on his every, deliberately arcane and obtuse word; and after any

example of such 'fedspeak' capital markets worldwide would move up or down.

But it was not always thus.

To explain why, bear with me as I go through some of the history and recent record of central bankers - and why they share a heavy responsibility for the rise of public rage and insecurity.

The looting of the Czech central bank - and the role of the BoE

There is an institution - The Bank for International Settlements or BIS - that is the granddaddy of all central banks. Based in Basel, Switzerland, it was founded in 1930 by both Wall St bankers and officials of central banks to coordinate the actions and operations of central bankers worldwide. And to do so in ways that would provide 'stability' to global, private capital markets by isolating them from "mass politics" - i.e. democracy.

Jamie Martin explains in his recent, excellent history of that period '[The Meddlers](#)', that the BIS was established in 1930

to be detached from mass politics and run by capitalists, whose judgements ..were "superior to the passions of the crowd and independent of rulers who are dependent on the crowd." Its directors would be *ex officio* heads of member central banks and their delegates, and in the US case, members of J.P. Morgan and the First National Banks of New York and Chicago. Its directorship was given to the US banker Gates McGarrah (of the New York Fed.). p 122

Martin cites a German journalist, Leo Stahl, writing in a liberal German newspaper who gave

a characteristic account of early 1929 plans for the BIS as a plot of Wall Street, the City and Burgstrasses to wrest powers away from national parliaments to create an "unprecedented dictatorship". p.123

He was not far wrong.

The BIS was attacked on all sides - from both the left and the German far-right - but vehemently defended the institution's "independence" from "mass politics".

Until that is, the institutions and its central bankers became embroiled in the strategic aims of the Third Reich.

In that scandalous episode so-called 'central bank independence' exposed the vulnerability of Britain to the whims and 'judgements' of unelected and unaccountable technocrats at both the BIS and the Bank of England (BoE).

This is what happened.

After the Nazi invasion of Czechoslovakia in March, 1939, central bankers in Prague were forced by threats of violence to direct the BIS to move £6 million worth of Czech gold held in the name of the BIS, *at the Bank of England* - and to forward this gold to accounts held for the German Reichsbank. (Martin, p. 130)

When questions were raised of why an international institution was facilitating the looting of Czechoslovak gold...Niemayer, chairman of the BIS, justified the decision on the grounds of the bank's neutrality and the fact it could not decline a commercial transaction on the basis of political criteria if asked to do so by governments that did not exercise any legal powers over it. (Martin, p.130)

Note the euphemism "commercial transaction" for an inter-state transaction.

Montagu Norman, then governor of the Bank of England (BoE), refused to consider any government involvement at all in the interaction between the BIS - acting on behalf of the Third Reich - and the Bank of England. (Recall that Montagu Norman had at the time a fairly close relationship with **Hjalmar Schacht**, governor of the Hitler's Reichsbank in 1939 and **was godfather to one of Schacht's grandchildren.**)

In 1939, at a time of extreme danger for Britain, this episode exposed risks to the nation's security as its central bank governor used his independence to transfer \$6 million to its enemy - the Nazi regime.

Throughout the controversy, Norman held the line. He claimed that the BIS was a completely nonpolitical institution that had never even been required to tell the government about its role in the German looting of Czechoslovak gold in the first place. (p. 131)

Central banks and the post-war settlement

As Jamie Martin relates, this dark episode profoundly damaged the reputation of the Bank for International Settlements...

The BIS's association with the Third Reich and sour memories of the Czechoslovak affair led to concerted efforts in the United States to dissolve it at war's end.

Despite the stench left by the scandal, the BIS was protected from its dissolution by friends in the private banking sector. Martin notes that by the turn of the twenty-first century,

the BIS had returned to its former position as guardian of central bank independence, which had once again become a central guiding norm of global economic governance. p. 131.

Unable, or unwilling to dissolve the BIS, governments moved instead to nationalise their central banks. Britain's post-war Labour government nationalised the Bank of England, in reaction to Montagu Norman's dalliance with the Third Reich, and because of the role the central bank played in 1925 in blocking expansionary fiscal policies. From 1946 the Bank was owned by the government and not by private stockholders, as the [BoE explains on its website](#).

Nationalisation transformed the Bank of England. Democracy prevailed, and was strengthened.

Elected, accountable government ministers were made responsible for monetary policy, including the rate of interest and the exchange rate. These policies are fundamental to the sound management and prosperity of both the public and private sectors of the economy. Technocrats at the BoE were given authority over the banking system.

There followed a period known to all economists - on both the right and the left - as 'the golden age' of economics; or *Trente Glorieuses* - the thirty glorious years. It was an era in which democracy was strengthened in many parts of the world, and de-colonisation began....

In 1946, the Central Bank of Argentina was also nationalised - as explained here by the Bank of Argentina.

The Central Bank became a fully state-run institution in 1946 with the main goal of fostering economic development. It thus sought to reduce the number of loans being channeled to *speculative activities* and to redirect resources to finance productive activities. (Emphasis added).

Alas, ten years later Argentina effectively transferred control over economy policy to a) the IMF and b) global capital markets. Since 20 September 1956 Argentina has been a 'client' of the IMF. Most of Argentina's policy failures can be attributed to the economic 'advice', remedies and loans offered to its finance ministers by the highly qualified, if fatally orthodox and unaccountable IMF technocrats .

"In Argentina, the IMF is like Lex Luthor", says Mr Gedan of the Wilson Center.

Historically whenever the IMF swoops into Argentina, it leaves brutal budget cuts and economic chaos in its wake.

Fast forward fifty years after the nationalisation of central banks

The year is 1997, and a Labour government has just been elected. The following day, Gordon Brown, Britain's finance minister (or chancellor) announced the restoration of "independence" to the Bank of England to much acclaim from the City of London. To sugar the public pill of the announcement Brown said that the BoE's

objectives of policy were 'high and stable levels of employment and growth', the same as they had been in the 1940s when the Bank was nationalised, but added: 'It is right in the 1990s to deal with them in modern ways.'

That was not to be the case. A press release does not a constitutional mandate make.

In reality the BoE was granted a Charter by the Blair government with a dual monetary policy mandate, but it does not include 'high and stable levels of employment'. Instead the mandate is to keep inflation (prices) low, and to maintain financial stability.

'Financial stability' in this case is central bank-speak for the stability or protection of globalised capital markets.

By contrast, and as the Richmond Fed explains, **the US 's Federal Reserve does have a "dual mandate"** that since 1977 includes the obligation to use monetary policy to

promote effectively the goals of maximum employment, stable prices, and moderate long term interest rates.The idea that the Fed should pursue multiple goals can be traced back to at least the 1940s, however, with shifting emphasis on which objective should be paramount.

Gordon Brown's sudden and unexpected action in 1997 was nothing less than the transfer of great power away from an elected and democratic authority, to a technocratic and unaccountable authority.

Central bankers could not believe their luck.

Around the world the status of central bank technocrats grew.

In 2002 the media announced that the Queen of England (in reality, the chancellor, Gordon Brown) had, in recognition of Greenspan's "contribution to global economic stability" - bestowed a knighthood upon him. **CNN dubbed him**

...the second most powerful man in America.

Sadly, Greenspan's intellectual omniscience prevented him from predicting, and preventing the Global Financial Crisis of 2007-9. To be fair, he acknowledged his failure when cross-examined by a Congressional committee. The chairman reminded Greenspan that he had once said: ¹

I do have an ideology. My judgement is that free, competitive markets are by far the unrivalled way to organise economies. We've tried regulation. None meaningfully worked.

In response Greenspan acknowledged in his obfuscating manner that:

I had found a flaw in the model that I perceived as the critical functioning structure that defines how the world works, so to speak...That's precisely the reason I was shocked, because I had been going for forty years or more with very considerable evidence that it was working exceptionally well.

The failure of that model proved catastrophic for both the US and the global economy. According to [the Harvard Business Review in 2018](#):

Measured by decrease in per capita United States GDP compared to the pre-crisis trend, by 2016 the crisis had cost the country 15% of GDP, or [\\$4.6 trillion](#). Such numbers are too vast to be understood in any meaningful way, but one on a smaller scale may be even more powerful. A [2018 study by the Federal Reserve Board](#) found that the crisis cost *every single American* approximately \$70,000. Just in dollar terms, the crisis was arguably the most significant event of the 21st century so far, and the largest single economic downturn since the Great Depression.

Today, nearly sixteen years later, the global economy has still not fully recovered. As Wharton management professor Peter Cappelli explains:

One in five employees lost their jobs at the beginning of the Great Recession. Many of those people never recovered; they never got real work again...

A generation of young people entering the job market had their careers disrupted by it. The fact that this age group continues to delay buying houses, having children, and other markers of stable, adult life is largely attributed to this."

No wonder Americans are mad as hell.

Why the US economy was so slow to recover - and why 'independent' technocrats at the Federal Reserve are largely to blame, will be discussed in follow-up post.



Augustin Carstens - General Manager for the Bank of International Settlements

An independent analyst, I write about the international financial system and its impact on humanity and ecosystem. I do so without fear or favour. Your support is appreciated.

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1 From Ann Pettifor: *The Production of Money* (2017) p.10

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