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PART 7

BRITISH FINANCIAL WARFARE: 1929; 1931- 33

HOW THE CITY OF LONDON CREATED THE GREAT DEPRESSION

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The thesis of this paper is that the great economic and financial cataclysm of the first half of the twentieth century, which we have come to know as the Great Depression, was caused by the Bank of England, the British government, and the City of London. The potential for the Great Depression derived from the economic and human destruction wrought by World War I, which was itself a product of British geopolitics and especially of the British policy, exemplified by King Edward VII, of creating an encircling anti-German alliance in order to wage war. The economic destruction of Europe was continued after 1918 by the Peace of Paris (Versailles, St. Germain, Trianon, Neuilly, Sevres) imposed by the Allies on the defeated Central Powers. Especially important here were the 55 billion gold dollars in reparations inflicted on defeated Germany, along with the war debt burden of the supposedly victorious powers themselves. Never during the 1920's did world trade surpass the levels of 1913. Reparations and war debt were a recipe for economic stagnation.

The ravaged post-war, post-Versailles world of the 1920's provides the main backdrop for the following considerations:

> **1.** The events leading to the Great Depression are all related to British economic warfare against the rest of the world, which mainly took the form of the attempt to restore a London- centered world monetary system incorporating the gold standard. The efforts of the British oligarchy in this regard were carried out by a clique of international central bankers dominated by Lord Montagu Norman of the Bank of England, assisted by his tools Benjamin Strong of the New York Federal Reserve Bank and Hjalmar Schacht of the German Reichsbank. This British-controlled gold standard proved to be a straightjacket for world economic development, somewhat along the lines of the deflationary Maastricht "convergence criteria" of the late 1990's.
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> **2.** The New York stock exchange speculation of the Coolidge-Hoover era was not a spontaneous phenomenon, but was rather deliberately encouraged by Norman and Strong under the pretext of relieving pressure on the overvalued British pound sterling after its gold convertibility had been restored in 1925. In practice, the pro-speculation policies of the US Federal Reserve were promoted by Montagu Norman and his satellites for the express purpose of fomenting a Bubble Economy in the United States, just as later central bankers fostered a Bubble Economy in Japan after 1986. When this Wall Street Bubble had reached gargantuan proportions in the autumn of 1929, Montagu Norman sharply cut the British bank rate, repatriating British hot money, and pulling the rug out from under the Wall Street speculators, thus deliberately and consciously imploding the US markets. This caused a violent depression in the United States and some other countries, with the collapse of financial markets and the contraction of production and employment. In 1929, Norman engineered a collapse by puncturing the bubble.
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> **3.** This depression was rendered far more severe and, most importantly, permanent, by the British default on gold payment in September, 1931. This British default, including all details of its timing and modalities, and also the subsequent British gambit of competitive devaluations, were deliberate measures of economic warfare on the part of the Bank of England. British actions amounted to the deliberate destruction of the pound sterling system, which was the only world monetary

system in existence at that time. The collapse of world trade became irreversible. With deliberate prompting from the British, currency blocs emerged, with the clear implication that currency blocs like the German Reichsmark and the Japanese yen would soon have to go to war to obtain the oil and other natural resources that orderly world trade could no longer provide. In 1931, Norman engineered a disintegration by detonating the gold backing of the pound sterling.

4. In the United States, the deliberate British default of September 1931 led, given the do-nothing Hoover Administration policies, directly to the banking crisis of 1932-33, which closed down or severely restricted virtually every bank in the country by the morning of Franklin D. Roosevelt's inauguration. If Roosevelt had not broken decisively with Hoover's impotent refusal to fight the depression, constitutional government might have collapsed. As it was, FDR was able to roll back the disintegration, but economic depression and mass unemployment were not overcome until 1940 and the passage of Lend-Lease.

As we have already hinted, we consider that these matters are not solely of historical interest. The repertoire of central bank intrigue, speculative bubbles, defaults, devaluations, bank rate manipulations, deflations and inflations constitute the essential arsenal being used by British economic warfare planners today.

The Maastricht "convergence criteria" with their insane deflationary thrust are very similar in effect to the rules of the gold exchange standard as administered by London, 1925-1931. For that matter, the policies of the International Monetary Fund are too. The parallel extends even to the detail of Perfidious Albion's gambit of opting out of the European Currency Union while watching its victims writhe in an deflationary straightjacket tailored between Threadneedle Street and Saville Row.

Since the summer of 1995 hot money generated by the low interest rates of the Bank of Japan has been used by hedge fund operators of the Soros school to puff up the world bubble. If the Bank of England's late 1996 switch to bank rate increases turns out to be a harbinger of world tight money, then it is possible that the collapse and disintegration of the world financial system will recapitulate other phases of the interwar years.

Lord Montagu Norman was always obsessed with secrecy, but the British financial press has often practiced an arrogant and cynical bluntness in its self-congratulatory accounts of its own exploits. Therefore, wherever possible we have let the British, especially the London Economist magazine and Lord Keynes, speak for themselves and indict themselves. We have also drawn on the memoirs of US President Herbert Hoover, who had moments of suprising lucidity even as he, for the sake of absurd free-market, laissez-faire ideology, allowed his country to drift into the abyss. As we will see, Hoover had everything he needed to base his 1932 campaign for re-election on blaming the Federal Reserve, especially its New York branch, for the 1929 calamity. Hoover could have assailed the British for their September 1931 stab in the back. Hoover would have been doing the country a permanent service, and he might have done somewhat better in the electoral college. But Hoover was not capable of seriously attacking the New York Fed and its master, Lord Montagu Norman.

ECONOMIC DECLINE AFTER WORLD WAR I

The roots of the crash of 1929 are to be sought in the economic consequences of World War I, which was itself a product of the British geopolitical machinations of King Edward VII and his circles. The physical impact of World War I was absolutely devastating in terms of human losses and material damage. This destruction was then greatly magnified by the insistence of London and Paris on reparations to be paid by defeated and prostrate Germany.

After a few years of haggling, these reparations were fixed at the astronomical sum of 32 billion gold-backed US dollars, to be paid over 62 years at an interest rate of 5%. Even Lord Keynes, in his "Economic Consequences of the Peace," compared this to the imposition of slavery on Germany and her defeated allies, or to squeezing a lemon until the pits squeak.

The reparations issue was complicated by the inter-allied war debts, owed especially by France and Britain to the United States. For a time a system emerged in which Wall Street made loans to Germany so that Germany could pay reparations to France, which could then pay war debts to Britain and the US. But this system was based on usury, not production, and was therefore doomed.

The most dramatic evidence available on economic stagnation during the 1920's is the fact that during this decade world trade never attained the pre-war level of 1913.

THE CABAL OF CENTRAL BANKERS

A dominant personality of the City of London during these years was Sir Montagu Norman, the Governor of the Bank of England during the period 1920-1944. Norman came from a line of bankers. His grandfather was Sir Mark Wilks Collet, who had himself been Governor of the Bank of England during the 1880's. Collet had also been a partner in the London firm of Brown, Shipley & Co., and also in the New York bank of Brown Brothers & Co., later Brown Brothers, Harriman, one of the most evil and most powerful banks in modern American history. The managing partner of Brown Brothers, Harriman during the 1930's was Prescott Bush, father of President George Herbert Walker Bush, and a financial backer of Hitler. The dominant figure at Brown Brothers, Harriman was W. Averell Harriman, Roosevelt's special envoy to Churchill and Stalin, head of the Marshall Plan, and the adviser to President Truman who was most responsible for starting the Cold War with Russia and for prolonging the Korean War.

Acting by himself and relying only on his own British resources, Montagu Norman could hardly have aspired to play the role of currency dictator of Europe. Norman's trump card was his ability to manipulate the policies of the United States Federal Reserve

System through a series of Morgan-linked puppets.

Morgan's key puppet was Benjamin Strong of the New York Federal Reserve Bank, which then as now represented the flagship of the entire Fed system. Strong was Governor of the New York Federal Reserve Bank between 1914 and his death in 1929. Strong was an operative of the House of Morgan who had worked at Bankers Trust. In addition to what he could do himself, Strong had great influence over Andrew Mellon, who served as Secretary of the Treasury between 1921 and 1929 under Presidents Harding, Coolidge, and Hoover.

Montagu Norman also owned a large piece of Hjalmar Schacht, Governor of the German Reichsbank and later Finance Minister in governments in which Adolf Hitler was chancellor. Montagu Norman himself, along with King Edward VIII, Lady Astor and Sir Neville Chamberlain, was one of the strongest supporters of Hitler in the British aristocracy. Norman put his personal prestige on the line in September, 1933 to support the Hitler regime in its first attempt to float a loan in London. The Bank of England's consent was at that time indispensable for floating a foreign bond issue, and Norman made sure that the "Hitler bonds" were warmly recommended in the City.

THE FEDERAL RESERVE: CAUSE OF DEPRESSION

One of the main causes for the Great Depression was the Federal Reserve System of the United States. Many naive persons think of the Federal Reserve System as a part of the United States government, which it emphatically is not. Probably this is because the only money we have nowadays is marked "Federal Reserve Note." The Federal Reserve is a privately owned and privately managed institution. Those who can remember the 1960's can recall that there were one dollar silver certificates as well as United States Notes, the descendants of Lincoln's greenbacks, in several denominations. But after the Kennedy assassination, the private Federal Reserve established a monopoly on printing American money, shutting out the US Federal Government from this important function.

In this way the Federal Reserve System violates the letter and spirit of the United States Constitution. There, in Article I, Section 8, Clause 5 we read that the Congress shall have the power "to coin money, regulate the value thereof, and of foreign coin, and fix the standard of weights and measures."

The Federal Reserve was created in December, 1913 when Woodrow Wilson signed the Glass-Owen Federal Reserve Act. That bill had been the product of cloak-and-dagger machinations by Wall Street financiers and their political mouthpieces, many of them in league with the City of London. Wall Streeter Frank A. Vanderlip, in his autobiography "From Farm Boy to Financier" narrates that the secret conference which planned the Federal Reserve was "as secret - indeed, as furtive - as any conspirator." Vanderlip was one of the insiders invited to the Jekyl Island Club on the coast of Georgia in the autumn of 1910 by the Senator Nelson Aldrich, the father-in-law of John D. Rockefeller Jr. Aldrich also invited Henry Davison of J.P. Morgan & Co., and Benjamin Strong, the future Governor of the New York Federal Reserve Bank. Also on hand was Paul Warburg of the notorious international banking family, descended from the Del Banco family of Venice. As Vanderlip recounted, "We were instructed to come one at a time and as unobtrusively as possible to the railway terminal on the New Jersey littoral of the Hudson, where Senator Aldrich's private car would be in readiness, attached to the rear end of a train for the South."

On Jekyl Island this crew began to decide the main features of the central bank of the United States: "We worked morning, noon, and night....As we dealt with questions I recorded our agreements...If it was to be a central bank, how was it to be owned - by the banks, by the Government or jointly ? When we had fixed upon bank ownership and joint control, we took up the political problem of whether it should be a number of institutions or only one." In the end, says Vanderlip, "there can be no question about it: Aldrich undoubtedly laid the essential, fundamental lines which finally took the form of the Federal reserve law."

Today each of the twelve Federal Reserve Banks - Boston, New York, Chicago, San Francisco, and so forth - is a private corporation. The shares are held by the member banks of the Federal Reserve System. The Class A and Class B Directors of each Federal reserve Bank are elected by the shareholders from among bankers and the business community, and other Directors are appointed by the Federal Reserve Board in Washington.

Members of the Board of Governors of the Federal Reserve System in Washington are chosen by the President and must be approved by the Senate, for what that is worth. But when we come to the vital Federal Reserve Open Market Committee, which sets short-term interest rates and influences the size of the money supply by buying or selling government securities, the picture is even worse. The FOMC comprises 7 Fed Governors from Washington plus 5 presidents of Federal Reserve Banks appointed by the respective Directors of these banks. In practice, 5 Federal Reserve district presidents who have never been seen by the President or the Congress have a vote on setting the credit policy and money supply of the United States. Public policy is made by a private cabal of self-appointed plutocrats.

How was this sleazy product marketed to the Congress ? Interestingly, the Congressmen were told that the Federal Reserve System would prevent panics and depressions like those of the 1870's and 1890's. Here is a sampling compiled by Herbert Hoover of selling points used by lobbyists seeking votes for the Federal Reserve Act:

> We shall have no more financial panics....Panics are impossible....Business men can now proceed in effect confidence that they will no longer pu their property in peril....Now the business man may work out his destony without living in terror of panic and hard times....Panics in the future are unthinkable....Never again can panic come to the American people.

[The Memoirs of Herbert Hoover, p.7]

The verdict of history must be that the Federal Reserve has utterly failed to deliver on these promises. The most potent political argument against this arrangement is that it has been a resounding failure. Far from making financial crises impossible, the Fed has brought us one Great Depression, and it is about to bring us a super-depression, a worldwide disintegration.

The Federal Open Market Committee was not part of the original legislation that created the Federal Reserve System. But in the early 1920's, some regional Federal Reserve Bank presidents, inevitably dominated by New York, formed a committee outside of any law to coordinate their activities in determning the money supply and interest rates through buying and selling of government securities - i.e., open market operations. This was a very successful power grab by the regional Reserve Bank leaders, all directly chosen by bankers and the private sector, and not subject to approval by anyone in Washington. In 1935 Franklin D. Roosevelt very unwisely signed a Banking Act which legalized the Federal Open Market Committee in its present form, with a formal majority for Federal Reserve Board Governors in Washington, the ones proposed by the President and approved by the Senate. But at the same time the Secretary of the Treasury, who used to be a member of the central Board, was ousted from that position.

THE BRITISH RECORD OF STARTING WALL STREET PANICS

The British had a long track record of using the London Bank Rate (that is, the rediscount rate of the Bank of England) for financial and economic warfare against the United States. The periodic panics of the nineteenth century were more often than not caused by deliberate British sabotage. A few examples:

> * In the Panic of 1837, the stage had been set for depression by outgoing President Andrew Jackson's and Secretary of the Treasury Roger Taney's abolition of the Second Bank of the United States, by their cultivation of the state "pet" banks, by their imbecilic Specie Circular of 1836, which demanded gold payment to the federal government for the purchase of public lands, and by their improvident distribution of the Treasury surplus to the states. London's ultinmate weapon turned out to be the Bank of England bank rate. With all the American defenses sabotaged, the Bank of England sharply raised its discount rates, sucking gold specie and hot money liquidity back across the Atlantic, while British merchants and trading houses cut off their lines of credit to their American customers. In the resulting chaos, not just private banks and businesses went bankrupt, but also the states of Mississippi, Louisiana, Maryland, Pennsylvania, Indiana, and Michigan, which repudiated their debts, permanently impairing US credit in the world. Internal improvements came to a halt, and the drift towards secession and civil war became more pronounced.
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> * The Panic of 1873 resuted from a British-directed effort to ruin the banking house of Jay Cooke and Company, which had served Lincoln and his successors as a quasi-governmental agency for the marketing of United States Treasury securities and railroad bonds during and after the Civil War. The Cooke insolvency had been preceded by a massive dumping of US staocks and bonds in London and the rest of Europe. This was London's way of shutting down the Civil War boom that Lincoln's dirigist and protectionist policies had made possible. Instead, a long US depression followed.
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> * The Panic of 1893 was prepared by the 1890 "Baring panic" in London, caused by the insolvency of Barings Bank, the same one which went bankrupt and was sold off in the spring of 1995. In the resulting depression, the US Treasury surplus was reduced to almost nothing, and a budget defecit loomed. Using this situation as a pretext, British speculators drove the exchange rate of the dollar down to the point where owners of gold began exporting their gold to London. Treasury gold stocks dipped below $100,000,000, and then kept falling to $68,000,000; US national bankruptcy threatened. In response to this crisis, subversive President Grover Cleveland gave control of the US public debt to the New York banking houses of Morgan and Belmont, themselves British agents of influence. Cleveland "sold out to Wall Street" by selling US gold bonds to Morgan and Belmont at reduced prices, with the taxpayers picking up the tab; Morgan and Belmont promised to "use their influence" in London to prevent further British bear raids against the US dollar and gold stocks. All of this caused another long depression.

The economics profession is totally bankrupt today, with every Nobel Prize winner in economics with the sole exception of Maurice Allais qualifying for committment to a psychiatric institution. One of the reasons for the depravity of the economists is that their assigned task has always been one of mystification, especially the job of covering up the simple and brutal fact that American depressions have generally been caused by Bank of England and City of London bankers. All the mystical mumbo-jumbo of curves, cycles, and epicycles a la Schumpeter has always had the purpose of camouflaging the fact that the Bank of England bank rate was the nineteenth century's closest equivalent to the hydrogen bomb.

DEFLATION CRISIS OF 1920-21

The New York panic of 1920-21 represents yet another example of British economic warfare. The illusion that the existence of the Federal Reserve System might serve as a barrier against new financial panics and depressions received a nasty knock with the immediate postwar depression of 1920, which was a co-production of the Bank of England and the New York Federal Reserve. The British deliberately provoked this Wall Street panic and severe depression during a period of grave military tension between London and washington occasioned by the naval rivalry of the US and UK. The British Bank Rate had been at 6% from November 1919 until April 15, 1920, when it was raised to 7%. The bust in Wall Street began in the late summer of 1920. The UK Bank Rate was lowered to 6.5% in April 1922, and it went down all the way to 3% by July, 1922.

The Federal Reserve, as usual, followed London's lead, gradually escalating the discount rate to 7% in June, 1920 to detonate the bust, and descending to 6.5% about a year later. The argument used by the central bankers' cabal to justify their extreme tight money policy was the climate of postwar inflation, speculation, expansion and the freeing of consumer demand that had been pent

up in wartime. This depression lasted about two years and was quite sharp, with a New York composite index of transaction indices falling 13.7% for the sharpest contraction since 1879. In many other countries this was the fiercest depression on record. As Keynes later complained, the US recovered much more rapidly than the British, who scarcely recovered at all. For the rest of the interwar period, the United Kingdom was beset by permanent depression.

The fact that this depression was brought on deliberately by the Norman-Strong duo is amply documented in their private correspondence. In December 1920, Strong and Norman agreed that "the policy of making money dearer had been successful, though it would have been better six months earlier. They agreed, too, that deflation must be gradual; it was becoming now too rapid and they favored a small reduction in rates both in London and New York." [Clay, Lord Norman, p. 132]

THE CRASH OF 1929

The panic of 1929 is a prime example of a financial collapse which was not prevented by the Federal Reserve. In fact, the 1920's speculaltive bubble and subsequent crash of 1929 was directly caused by Federal Reserve policies. Those policies in turn had been dictated by the world of British finance, which had been decisive in shaping the Federal Reserve to begin with.

During World War I, all the industrialized nations except the United States had left the gold standard. Only the United States had been able to stay with gold, albeit with special controls. During the 1920's about two thirds of the world's supply of monetary gold, apart from Soviet holdings, was concentrated in two countries - the United States and France. The British, who were fighting to preserve their dominance of the world financial system, had very little gold.

The British were determined to pursue their traditional economic imperialism, but they had emerged from the war economically devastated and, for the first time, a debtor nation owing war debts to the United States. At the same time, the British were fighting to keep their precious world naval supremacy, which was threatened by the growth of the United States Navy. If the US had merely built the ships that were called for in laws passed in 1916, the slogan of "Brittania Rules the Waves" would have gone into the dust- bin of history early in the 1920's.

The pre-war gold parity had given a dollar to pound relation of $4.86 per pound sterling. As an avid imperialist Montagu Norman was insisting by the mid-1920's that the pound return to the gold standard at the pre-war rate. A high pound was a disaster for British exports, but gave the British great advantages when it came to buying American and other foreign real estate, stocks, minerals, food, and all other external commodities. A high pound also maximized British earnings on insurance, shipping, and financial services -- London's so-called "invisible exports" and earnings.

LORD NORMAN'S GOLD EXCHANGE STANDARD, 1925-1931

The nineteenth century gold standard had always been an instrument of British world domination. The best economic growth achieved by the United States during the century had been registered between 1861 and the implementation of the Specie Resumption Act in 1879. During that time the United States enjoyed the advantage of its own nationally controlled currency, Lincoln's greenbacks. Specie resumption meant re-opening the Treasury window where holders of paper dollars could have these dollars exchanged for gold coins. The United States in 1879 thus returned to a gold coin standard, under which paper money circulated side by side with $20 and $50 gold pieces. This practice proved to be deflationary and detrimental to economic development, while it increased American vulnerability to British currency manipulations.

The post-1918 gold standard de-emphasized the circulation of gold coins, although this still went on. It was rather a gold exchange standard, under which smaller countries who chose the gold standard could hold some of their reserves in the leading gold-backed currencies like the pound sterling or the dollar. These currencies were counted as theoretically as good as gold. The advantage to the smaller countries was that they could keep their reserves on deposit in London and earn interest according to the British bank rate. As one London commentator noted at the time, "...many countries returning to gold "have had such confidence in the stability of the system, and in particular in the security of the dollar and of sterling, that they have been content to leave part of the reserves of their currencies in London." [Economist, September 26, 1931, p. 549]

The post-1918 gold exchange standard included the workings of the so-called gold points. This had to do with the relation of currency quotations to the established gold parity. Norman wanted the pound sterling to be worth $4.86. If the pound strengthened so as to trade for $5, let us say, then the pound was said to have exceeded the gold import point. American and other gold would be shipped to London by those who owned gold. That gold would be deposited in London and would earn interest there. If, as later happened, the pound went down to 4 dollars to the pound, then the pound was said to have passed the gold export point, and British gold would be physically shipped to New York to take advantage of the superior earnings there. This meant that if Norman wanted to keep a strong pound, he needed to weaken the dollar at the same time, since with a strong dollar the British gold would flee from London, forcing Norman to devalue the pound sterling, lowering its the gold parity. Notice that gold movements were to a very large degree based on the decisions of individual banks and investors.

(During the later 1930's, after the a period in which the dollar floated downward in terms of gold, the United States under Franklin D. Roosevelt established a gold reserve standard, also called by FDR's critics a "qualified external bullion standard," in which gold transactions were limited to settlements with foreign central banks, while private citizens were barred from holding gold. This was similar to the gold reserve provisions of the Bretton Woods system of 1944-1971.)

Norman's problem was that his return to the pre-1914 pound rate was much too high for the ravaged post-1918 British economy to support. Both the US and the British had undergone an economic downturn in the early 1920's, but while the US soon bounced

back, the British were never able to recover. British manufactures were now considered low-quality and obsolete.

THE GOLDEN CHANCELLOR

Nevertheless, Norman insisted on a gold pound at $4.86. He had to convince Winston Churchill, the Chancellor of the Exchequer. Norman whispered into Churchill's ear: "I will make you the golden chancellor." Great Britain and the rest of the Empire returned to the gold standard in April, 1925. Norman himself craved the title of "currency dictator of Europe." And indeed, many of the continental central banks were in his pocket.

It was much easier to return to the gold standard than it was to stay there. British industrial exports, including coal, were priced out of the world market, and unemployment rose to 1.2 million, the highest since Britain had become an industrial country. Emile Moreau, the governor of the Bank of France, commented that Norman's gold standard had "provoked unemployment without precedent in world history." British coal miners were especially hard hit, and when the mine owners announced wage reductions, Britain experienced the 1926 general strike, which was defeated with Winston Churchill as chief scab and strike-breaker.

But Norman did not care. He was a supporter of the post- industrial society based on the service sector, especially financial services. The high pound meant that British oligarchs could buy up the world's assets at bargain basement prices. They could buy US and European real estate, banks, and firms. Norman's goal was British financial supremacy: "...his sights remained stubbornly fixed on the main target: that of restoring the City to its coveted place at the heart of the financial and banking universe. Here was the best and most direct means, as he saw it, of earning as much for Britain in a year as could be earned in a decade by plaintive indsutrialists who refused to move with the times. The City could do more for the country by concentrating on the harvest of invisible exports to be reaped from banking, shipping, and insurance than could all the backward industrialists combined." [Boyle, 222]

Montagu Norman's golden pound would have been unthinkable without the puppet role of Benjamin Strong of the New York Federal Reserve Bank. Since the pound was grotesquely overvalued, the British were running a balance of payments defecit because of their excess of imports over exports. That meant that Norman had to ship gold from the Bank of England in Threadneedle Street across the Atlantic. The British gold started to flow towards New York, where most of the world's gold already was.

The only way to stop the flow of gold from London to New York, Norman reasoned, was to get the United States to launch a policy of easy money, low interest rates, reflation, and a weak dollar - in short, a policy of inflation. The key to obtaining this was Benjamin Strong, who dominated the New York Fed, and was in a position to dominate the entire Federal Reserve system which was, of course, independent of the "political control" of the US government which these oligarchs so much resented.

In essense, Norman's demand was that the US should launch a bubble economy. The newly-generated credit could be used for American loans to Germany or Latin America. Or, it could be used to leverage speculative purchases of stocks. Very soon most of the new credit was flowing into broker call loans for margin buying of stocks. This meant that by advancing a small percentage of the stock price, speculators could borrow money to buy stocks, leaving the stocks with the broker as collateral for the loans. There are many parellels between the measures urged for the US by Norman in 1925 and the policies urged on Japan by London and Wall Street in 1986, leading to the Japanese bubble and their current banking crisis.

In 1925, as the pound was returning to gold, Montagu Norman, Hjalmar Schacht and Charles Rist, the deputy governor of the Banque de France visited Benjamin Strong in New York to mobilize his network of influential insiders for easy money and low interest rates in the US. Strong was able to obtain the policies requested by Norman and his European puppets. Norman & Co. made a second pilgrimage to Wall Street between 28 June and 1 July 1927 to promote American speculation and inflation. On this second lobbying trip, Norman exhibited grave concern because the first half of 1927 had witnessed a large movement of gold into New York. Strong and his cabal immediately went into action.

The second coming of Norman and Schacht in 1927 motivated Strong to force through new reflation of the money supply in July and a further cut in the US discount rate in August of that same year. The rediscount rate of the New York Fed was cut from 4% to 3.5%. This was the credit which stoked the culminating phase of the Coolidge Bull Market during 1928 and 1929. Strong also got the FOMC to begin buying US Treasury securities in open market operations, leaving the banks flush with cash. This cash soon wandered into the broker call loan market, where it was borrowed by stock speculators to buy stock on margin, fueling a growing stock speculation. Interest rates in London were supposed, according to Norman, to be kept above those in New York - although Norman later deviated from this when it suited him.

In his essay "The Economic Consequences of Mr. Churchill," Lord Keynes noted that the British had returned to gold at a rate that was at least 10% too high; Keynes showed that the British government had also chosen a policy of deliberately increasing unemployment, especially in the export industries in order to drive down wages. In order to stem the flow of gold out of London, Keynes observed, the Bank of England's policy was to "encourage the United States to lend us money by maintaining the unprecedented situation of a bill rate 1 per cent higher in London than in New York." [Essays in Persuasion, p. 254]

One alarmed observer of these events was, ironically, Secretary of Commerce Herbert Hoover of the Coolidge administration, who condemned the Fed policies as "direct inflation." "In November, 1925," recounts Hoover, "it was confirmed to me by Adolph Miller, a member of the Reserve Board, that Strong and his European allies proposed still more 'easy money policies,' which included continued manipulation of the discount rates and open market operations - more inflation." Hoover says he protested to Fed chairman Daniel Crissinger, a political appointee left over from the Harding era who was in over his head. "The other

members of the board," says Hoover, "except Adolph Miller, were mediocrities, and Governor Strong was a mental annex of Europe."

Hoover had to some extent struggled behind the scenes in 1925 against Norman's demands, but by 1927 he had begun to defer in matters of high finance to Ogden Mills, who was willing to go along with the Bank of England program. After the crash, Hoover's friend Adolph Miller of the Fed Board of Governors told a committee of the US Senate:

> In the year 1927...you will note the pronounced increase in these holdings [US Treasury securities held by the Fed] in the second half of the year. Coupled with the heavy purchases of acceptances it was the greatest and boldest operation every undertaken by the Federal Reserve System, and, in my judgment, resulted in one of the most costly errors committed by it or any other banking system in the last 75 years....
> What was the object of the Federal Reserve Policy in 1927? It was to bring down money rates, the call rate among them, because of the international importance the call rate had come to acquire. The purpose was to start an outflow of gold - to reverse the previous inflow of gold into this country.

[Senate Hearings pursuant to S.R. 71, 1931, p. 134 in Lionel Robbins, The Great Depression (London, 1934), p. 53.]

A few years later the British economist Lionel Robbins offered the following commentary on Miller's testimony: "The policy succeeded....The London position was eased. The reflation succeeded. But from that date, the situation got completely out of control. By 1928 the authorities were throughly frightened. But now the forces they had released were too strong for them. In vain they issued secret warnings. In vain they pushed up their own rates of discount. Velocity of circulation, the frenzied anticipation of speculators and company promoters, had now taken control. With resignation the best men in the system looked forward to the inevitable smash." [Robbins, pp. 53-54]

Robbins contends that the Wall Street bubble of 1925-1929 was built on top of an economy that was sinking into recession in 1925. The Norman-Strong bubble masked that recession until the panic exploded in 1929. Robbins places the responsibility for the Crash at the door of the Federal Reserve and its European counterparts: "Thus, in the last analysis, it was deliberate co-operation between Central bankers, deliberate 'reflation' on the part of the Federal Reserve authorities, which produced the worst phase of this stupendous inflation." [Robbins, p. 54]

The evolution of the Norman's tactics shows clearly enough that he did not provoke a crash in New York out of legitimate self defense, to protect the Bank of England's gold from being exported to Manhattan. Norman was willing to sacrifice massive quantities of gold in order to feed the New York bubble and thus be sure that when panic finally came, it would be as devastating as possible. Between July 1928 and February, 1929, the New York Fed lending rate was 5%, half a point higher than the 4.5% that was the going rate at the Bank of England. As the London Economist commented, "two years ago [in early 1927] no one would have believed New York could remain half a point above London for more than a few weeks without London being forced to follow suit." [Economist, February 9, 1929, p. 275] All during the autumn of 1928 the Bank of England hemorrhaged gold to Manhattan, as British pounds hurried to cash in on the 12% annual interest rates to be had in the Wall Street brokers' call loan market. Even in January and February of 1929, months when the Bank of England could normally expect to take in gold, the gold outflow continued.

During the first week of February, 1929, Norman raised the London bank rate to 5.5%. The Economist snidely commented:

> Finally, the 5.5 per cent. rate comes as a definite signal to America. It must not be supposed that Continental centres will remain indifferent to London's lead, and its cumulative effect may well be a definite pronouncement that Europe is not prepared to stand idly by and see the world's stocks sucked into a maelstrom. Wall Street can scarcely remain indifferent to such a pronouncement, especially if the New York Reserve Bank follows by a sharp increase in its own rate. In any case, the establishment of European interest rates upon a new and higher level may well draw gold back from New York before long; and if so the 5.5 per cent. rate will have done its work.

[Economist, 9 February 1929, p. 275]

The higher British bank rate scared a number of Wall Street speculators. In two days the Dow Jones average declined by about 15 points to 301. On the day Norman hiked the rates, the volume went over 5 million shares, at that tme an extraordinary level. But within a few days the momentum of speculation reasserted itself.

The signal sent by the higher London Bank Rate was underlined in March 1929 by the Anglophile banker Paul Warburg. This was once again the scion of the notorious Anglo-Venetian Del Banco family who had been the main architect of the Federal Reserve System. Warburg now warned that the upward movement of stock prices was "quite unrelated to respective increases in plant, property, or earning power." In Warburg's view, unless the "colossal volume of loans" and the "orgy of unrestrained speculation" could be checked, stocks would ultimately crash, causing "a general depression involving the entire country." [Noyes, p. 324]

Between February and April 1929, the Bank of England was able slightly to improve its gold stocks. By late April the pound began to weaken, and the Banque de France, true to Moreau's hard line policy, siphoned off more of Norman's gold. July 1929 was a bad month for Threadneedle Street's gold. By August 21, 1929 the Bank of England had paid out 24 million pounds' worth of gold since the start of the year. In August and September, however, the gold outflow slowed.

On the morning of 4 September 1929, the New York hedge fund operator Jesse Livermore received a message from a source in London according to which a "high official" of the Bank of England - either Montagu Norman or one of his minions - had told a luncheon group of City of London men that "the American bubble has burst." The same official was also quoted as saying that Norman was looking for an excuse to raise the discount rate before the end of the month. The message concluded by noting that a financier by the name of Clarence Hatry was in big financial trouble. [Thomas and Morgan-Witts, pp. 279-280]

The New York Federal Reserve Bank had raised its discount rate to 6% on August 8. Soon therafter, the market began to run out of steam. The peak of the Coolidge bull market was attained on September 3, 1929, when many leading stocks reached their highest price quotations. So Livermore's Bank of England source had been right on te money. On Sept. 5, the market broke downward on bearish predictions from economic forecaster Roger Babson, who on this day won his nickname as "the Prophet of Loss." During the following weeks, the market drifted sideways and downward.

On September 20, 1929 it became known in the City of London that the Clarence Hatry group, which supposedly had been worth about 24 million pounds, was hopelessly insolvent. On that day Hatry and his leading associates confessed to fraud and forgery in the office of Sir Archibald Bodkin, the Director of Public Prosecutions, went to have lunch at the Charing Cross Hotel, and were jailed. Hatry later asserted that in late August, he had made a secret visit to the Bank of England to appeal to Montagu Norman for financing to allow him to complete a merger with United Steel Company, a UK firm. Norman had adamantly refused Hatry's bid for a bridge loan. By 17 September, when Hatry stock began to fall on the London exchange, Hatry had liabilities of 19 million pounds and assets of 4 million pounds.

When, on 19 September, Hatry approached Lloyd's Bank in last a desperate bid for financing, the wayward financier had told his story to Sir Gilbert Garnsey, a chartered accountant. Garnsey had made a second approach to Norman for emergency financing, and had also been rebuffed. At this point Norman had informed the chairman of the London Stock Exchange that the Hatry group was bankrupt; in this conversation it was agreed that trading in Hatry shares would be suspended on 20 September.

Norman thus wanted the Hatry bankruptcy; he could have prevented it if he had wanted to. How many times did Norman, who operated totally in the dark as far as the British government and public were concerned, bail out other tycoons who happened to be his friends and allies? The Hatry affair was useful to Norman first of all because it caused a rapid fall in the London stock market. London stockjobbers who were caught short on cash were forced to liquidate their New York holdings, and the Economist spoke of "forced sales" on Wall Street occasioned by the "Hatry disclosures." [London Economist, 23 November, 1929, p. 955] More important, Norman could now pretend that since confidence in London had been rudely shaken, he needed to raise the bank rate to prevent a further flight of funds.

Less than a week after the Hatry group's debacle, Norman made his final and decisive bid to explode the New York bubble. He once again raised the Bank of England discount rate. As the New York Times reported from London, "the atmosphere was tense in the financial district and exciting scenes were witnessed outside the Royal Exchange. Ten minutes before noon a uniformed messenger rushed into the corridor of the Bank carrying a framed notice over his head. The notice read: 'Bank rate 6 1/2 per cent.' A wild scramble ensued as messengers and brokers dashed back to their offices with the news." One of the subtitles of the Times's article was "BUSINESS FEARS RESULTS". [NYT, 27 September 1929] And well they might have.

6.5% was a very high discount rate for London in those days, and a full point had been a big jump. The London rate had not been so high since 1921, during the so-called deflation panic of 1920-21. The British move towards higher rates was imitated within two days by the central banks of smaller continental states where British influence was high: Austria, Denmark, Norway, Sweden, and the Irish Republic all hiked their discount rate. On October 10 the British monetary authorities in India also raised the discount rate there by a full point. Added to the steps already taken by the Bank of England, these actions generated a giant sucking sound as money was pulled out of New York and across the Atlantic.

The Economist approved Norman's maneuver, while blaming "the continuance of Stock Exchange speculation in America, with its concomitant high call rates" for the need to go 6.5%. Such a high rate would of course be highly destructive to British factories and farms, but this, as we have already seen, counted for nothing in Norman's machinations. The Economist commentary ended with a very sinister prophecy:

> Still, on the whole, few will doubt that the Bank was right this week to change over to its...alternative of imposing dearer money rates at home. It has decided to do so at a moment when the fates are becoming propitious to an early success, which should permit of a relaxation of the present tension before too long a period has elapsed.

[28 September 1929, p. 557]

What the Economist meant by success, as we will see, was the detonation of a collossal panic in New York. By abruptly pulling millions of pounds out of New York, Norman turned the sagging Coolidge bull market into the biggest rout in stock market history up to that time. Then, as the Economist suggests, the British bank rate could come down again.

John Kenneth Galbraith, in his much-quoted study The Great Crash, curiously manages to avoid mentioning the raise in the British Bank Rate as the immediate detonator of the Crash of 1929. But then, Galbraith is a Canadian and an Anglophile. But a few old American textbooks had the story somewhat better: "The stovck-market collapse came in October, 1929 when English interest rates were raised to six and one-half per cent in order to bring home needed capital that had been attracted to the United States by the high speculative profits," wrote hicks and Mowry in their 1956 Short History of American Democracy".

Various London outlets now began feverishly signalling that it was time to pull the rug out from under the New York market. A prominent signaller was Philip Snowdon, the Chancellor of the Exchequer in the Labour Party government of Ramsay MacDonald which had come into power in the spring of 1929 on a platform which had included the need for better relations with the United States. On October 3, 1929, Snowdon addressed the Labour Party's annual conference in Brighton. Snowdon's audience was understandably not happy with a higher bank rate, since they would be the main victims of unemployment.

Snowdon, while stressing that Norman's actions were independent of the Exchequer, genially told the delegates that "there was no other recourse." Why not? Snowdon first repeated the argument about defending London's gold stocks: "Monetary conditions in America, Germany, and France have been such as to create a great demand for the currencies of those countries, dollars, marks, and francs, and a consequent selling of sterling, with the result that the rates of exchange have gone against us recently, reaching points where payments were taken in gold." The US, in particular, was the culprit: "In New York, with America's plethora of liquid capital and high rates, there has been a usual year's orgy of speculation, draining money away from England." "There has been a raid on the financial resources of this country which the increased bank rate is now intended to check" Snowdon ranted. "The object of the increased rate is to draw money back to England," Snowdon stressed. The hardship of high rates must be blamed on the US: "...there must be something wrong and requiring our attention when such an orgy 3,000 miles away can so dislocate the financial system of this country and inflict injury on our workers and employers." It was time to bail out of New York and come home to London, Snowdon urged: "British credit is the best in the world. The British market is the safest in the world for those who are satisfied with reasonable investments and not lured into wild speculations." [NYT, 4 October 1929]

When J.P. Morgan read this speech, he was reportedly apoplectic that Snowdon had repeated his catchphrase of "orgy of speculation" so many times. But J.P. Morgan was also in the process of going short.

Snowdon's speech was widely applauded in the City of London, the New York Times reported the next day, and his "reference to the effect of the American speculation on the international situation was also approved...the feeling is that such movements must be allowed to bring their own correction." [NYT, 6 October 1929] The "correction" was now only a few weeks away.

On October 21, 1929 the Great Crash began. On October 24, at the height of the panic, Winston Churchill appeared briefly in the visitors' gallery of the New York Stock Exchange to view the boiling trading floor and savor the chaos he had wrought. On October 29, the principal market index lost 40 points on a volume of almost 12.9 million shares, an all-time record in that epoch.

One of the remarkable features of October 29 was the large number of immense block lots of stock that were dumped on the market, in contrast to the previous days when the panic had mainly involved smaller margin-leveraged investors. In those days the financial editor of the New York Times was the veteran journalist Alexander Dana Noyes, who had played the role of Anglophile Cassandra of the Coolidge market: at every periodic convulsion in the speculative fever, Noyes had proclaimed that the day of reckoning had finally come. In his later autobiography, The Market Place: Reminiscences of a Financial Editor (Boston: Little Brown, 1938), Noyes admits in passing that the British had played a key role in the dumping of these large blocks of stock: "Afterward, it came to be known that the forced selling was not only stock which had been bought for the rise by the hundreds of of thousands of outside speculators, but represented also the closing-out of professional speculators who had been individually 'carrying' immense lines of stock. Possibly London, which after its habit had been joining in the American speculation...started indiscriminate foreign selling." [p. 330]

By the end of October, the total value of stocks listed on the New York Exchange had declined by 37%. That, it turned out, was only the beginning. By the time the bottom was finally reached in March, 1933, stocks had declined in price by more than 80%. By 1932 commodity prices had fallen by 30 to 40%. World manufacuring production was down by 30 to 50%. World trade declined by two thirds. The International Labor Office in 1933 said that approximately 33 million persons were out of work.

By Halloween, Norman was able to reduce the London rate from 6.5% to 6%. The Economist gloated:

> "Seldom has the country received a more agreeable surprise than that sprung upon it by the Bank of England when at, twelve o'clock on Thursday morning, it announced that its rate had been reduced from 6 1/2 to 6 per cent. Five weeks ago, when Bank rate was raised from 5 1/2 to 6 1/2 per cent., doubts were freely expressed lest the new rate might not prove effective in correcting the exchanges and stemming the flow of gold from this country; and voices were heard foreboding that 6 1/2 per cent. might have to be followed by 7 1/2 per cent. in a few weeks' time. Less than three weeks sufficed to confound the school of extreme pessimists, for by the middle of October [when the New York panic began] it was plain that all danger of a higher Bank rate had passed. The dollar was nearer the import than the export gold point, the mark was back to par, and London and the sterling was proving a magnet for the world's floating balances.
>
> "The final collapse of the Wall Street boom under the avalanche of selling which began on Thursday of last week, and which must be regarded as the main factor in the Bank's decision, has confounded optimists and pessimists alike. ...it must be borne in mind that the Bank rate was raised to 6 1/2 per cent. last September solely to make London an attractive centre for short money. ...the crux of the situation lay in the attraction of the New York market both for floating balances to be lent at call, and for the funds of private investors anxious to participate in the profts of a boom which appeared to have no end. Steps had to be taken by the Bank of England to counter a situation which threatened to become critical for its own reserves.
>
> "Even before Wall Street's 'Black Thursday,' events showed that the new Bank rate was achieving its objects to an extent surpassing expectations....With the final collapse of the Wall Street boom, and the definite end of a critical phase in the

> world's monetary history, in which New York had been an inconveniently overwhelming competitor for international funds, the Bank of Ebgland decided...to lose no time in allowing Bank rate to drop to the level of the market rate....
>
> "...it would be premature to jump to the conclusion that the Wall Street break has cleared the world's monetary and commercial horizon of every cloud...there is warrant for hoping that the deflation of the exaggerated balloon of American stock values will ultimately be for the good of the world....we look for a gradual improvement in the international monetary situation as the huge balances hitherto concentrated in New York redistribute themselves over the rest of the world - thus greatly easing the strain on the British banking system and opening possibilities for a further reduction in Bank rate in the not very distant future....
>
> "The cessation of the westward flow of funds, even if the reversal of the process does not lead to the early recovery by London of all, or nearly all, her lost gold, should greatly ease the difficulties presented by the problems of international debt payments and the interrelated Reparations issue...The 6 1/2 per cent. rate HAS DONE ITS WORK AND DONE IT WELL." [London Economist, 2 November 1929, pp. 805-806, emphasis added]

On November 23, when the smoke had cleared on Wall Street and the wreckage there was more clearly visible, the Economist catalogued "Reactions to the Wall Street Slump." Again they recurred to Montagu Norman's interest rate hike of September 26: "That advance...was a by no means negligible factor in turning into the opposite direction the tide of funds which had been flowing so strongly toward New York, and in causing the edifice of the American speculation to totter." [London Economist, 23 November 1929, p. 955]

By mid-December the London discount rate was down to 5%. The Economist in its year-end review of 1929, repeated its praise for Norman's bank rate strategem: "In the financial world we faced and met a crisis which, in the opinion of the doubters, threatened even to endanger the gold standard in this country. But after enduring a long-continued drain of gold...the Bank at a critical moment took a course as bold as it was successful, and in the event it proved necessary only to put up with acutely dear money for a matter of weeks." In that holiday season of 1929 the Economist saw "a depression from across the Atlantic of cyclonic force" but since "Great Britain's monetary position in regard to gold need give rise to no anxiety" and British "industry starts a New Year ...on more even terms with our competitors than for many years past," Norman had scored a "success."

Norman had succeeded in torpedoing the US economy, but he had also unleashed a world depression. The British had been in a depression anyway, so getting the rest of the world to join them in their misery was a highly positive development. As for Benjamin Strong, he had died in October, 1928.

FROM COLLAPSE TO DISINTEGRATION

During 1930, levels of employment and production declined sharply in most of the world. British unemployment went from a colossal 1.34 million at the end of 1929 to an astronomical 2.5 million at the end of 1930. By late in the year Lord Keynes was writing of the "Great Slump of 1930," as a result of which mankind was living "this year in the shadow of one of the greatest economic catastrophes of modern history." [Essays in Persuasion, p. 135] Keynes estimated that the level of new capital investment in the United States was by late 1930 already 20% to 30% less than it had been in 1928. [p. 145]

1930 also saw a series of post-crash banking failures, especially among smaller banks of the rural south. These bank failures struck Kentucky, Tennessee, Arkansas, and North Carolina. There was also the insolvency of the Bank of United States in the New York City garment district.

With Wall Street crippled, London quickly became the center of what today would be called international hot money, with short term sterling balances that were ready to rush anywhere in the world a better rate of return could be obtained. During the period of uncertainty about the fate of the French franc between 1924 and 1926, large amounts of French hot money had shifted into London and had remained there. This money would exit with particular abruptness in case of trouble in London. This meant that a sudden collapse of confidence in London could easily lead to panic and the massive flight of capital.

THE COLLAPSE OF EUROPE

In late 1929 and 1930, the British financiers noticed very little change in their usual depression routine. But the explosion in New York cut off loans and wrecked the banking system in central Europe, as signalled by the Kreditanstalt banruptcy in Vienna in May 1931, and the fall of the Danatbank and the rest of the German banks in July of the same year.

Vienna had been chronically troubled because of its status as the full-sized head of a truncated body after the breakup of the Austro- Hungarian Empire. The Kreditanstalt, a Rothschild property, was the survivor among the Vienna banking houses, which had succumbed one by one to the post-Versailles slump. As a result, Kreditanstalt owed $76 million abroad, mainly to UK and US investors. An international effort to bail out the Kreditanstalt with the help of the Rothschilds, the Bank for International Settlements, the Bank of England, and others availed nothing.

Failure of the Kreditanstalt meant the bankruptcy of much of central Europe. The crisis of the German banks took center stage. Even more than in Austria, the drying up of New York as a source of lending was the main culprit here. It was estimated that Germany had to meet yearly foreign payments of $800 million, including the onerous reparations. A run on the Berlin banks developed. Within a short time Germany was forced to export two fifths of her gold reserves for a total of $230 million.

The crisis in Berlin inevitably had immediate and serious repercussions in London. Some believed that British financial houses had been too slow to pull their money out of Berlin, and that large sums owned by the British had been frozen in Berlin when the banks there were shut down. Part of the panic travelled to London by way of Amsterdam: the Dutch banks had loaned heavily in Germany, and the Dutch withdrew their considerable assets from London to stay afloat. Now the tremors unleashed by the Crash of 1929 had undermined the entire banking system in Germany, Austria, Romania, Hungary, and the rest of central Europe.

It was at this point, with a cynical treacherous reversal of their entire policy, that the British decided to wreck the sterling-centered international monetary system which they had re-assembled after World War I. Their gesture was similar to the speculative attacks on the pound mounted by George Soros and other British- backed speculators in September, 1992, which aimed at destroying the European Exchange Rate Mechanism, a grid of relatively fixed parities among the continental currencies. In soccer terms it was an "autogol" or own goal, scored against one's own purported team.

In the midst of the German crisis the fact that German reparations and interallied war debts could not be payed was finally recognized by US President Herbert Hoover, who was realistic enough to proclaim the debt moratorium which bears his name - the Hoover moratorium of June, 1931, which froze all reparations and war debt payments for 1 year. This moratorium was approved by the US Congress with sweeping majorities in December, 1931. But the Hoover moratorium was too little and too late. By the time Hoover had made up his mind to act, Schacht's Reichsbank was just a few weeks away from defaulting on gold payment and imposing strict controls on all currency transfers to the outside world. Another problem with the Hoover moratorium was that it was announced for only one year - it should have been for the duration of the crisis. The Hoover Moratorium also contained a domestic political trick: if the European governments were not required to pay their debt to the United States government, then those same Europeans might still have enough liquidity to pay back their loans American privately owned banks and businesses. So the US Treasury would have suffered, for the benefit of the private sector. In December, 1932 France, Belgium and other debtors defaulted, and the Hoover Moratorium became permanent in practice.

Under the guidance of Schacht and Montagu Norman, the Germany of Chancellor Heinrich Bruening rapidly evolved into the prototype of the autarkical currency bloc of the 1930's. Most of the classical Schachtian apparatus later employed by Hitler was already in place before Hitler ever came to power.

The emergence of the mark zone was also assisted by Hoover's Secretary of State, the notorious Anglophile Henry Stimson -- the ego ideal of the youthful George Bush. It was in fact Simson who, while attending the London Conference on the German crisis, proposed the so-called Standstill Agreements, which stated that creditors owed money by the German government or by German banks and businesses would be obliged to refrain from demanding payment, and in any case not to take their money out of Germany. This gambit was found especially appalling by Jacques Rueff, who was in attendance. A debt moratorium for the duration of the crisis would have been simpler and far more effective. As it was, the ability of German residents to buy and spend abroad was throughly curtailed. Soon all trade was restricted, and frozen and blocked accounts were instituted. The Reichsbank rediscount rate went to a strangulating 10%, and the rate on collateral loans went to 15%. In the domestic economy, deflation and austerity were the order of the day. All of this played politically into the hands of Hitler and the Nazis, which was precisely the intention of Montagu Norman.

LONDON'S SINGAPORE DEFENSE OF THE BRITISH POUND, 1931

The surrender to Japan of the British naval base and fortress of Singapore on February 15, 1941 was the culmination of one of the most absurd military farces in the history of Perfide Albion. This was the result of a long-term, conscious and deliberate committment to surrender Singapore as soon as possible if attacked by Japan, combined with the need to make a sham of defending the place so as not unduly to arouse the suspicions of the bloody Yanks. The British were looking ahead to the postwar world. They wanted the Japanese to have plenty of time to attain and fortify their defense perimeter, so that the US losses in rolling back Nippon would be nothing short of catastrophic. At the same time, the British wantesd to hide this treachery from the US public. It had to look as if they were caving in to force majeure.

At the time, every schoolboy knew that the British had fortified their coast defense artillery so that the guns could only point out to sea, and not to the land approaches, which were the axis of attack chosen by the Japanese. The British troops present, mainly imperial conscripts, were more or less overtly told not to fight. Once the needs of dramaturgy for the US market had been satisfied, Gen. Percival, the British commander, surrendered with all deliberate speed.

The feeble efforts to save the pound mounted by Montagu Norman's Bank of England and by Ramsay MacDonald's national unity cabinet in the summer of 1931 can be usefully summed up as a "Singapore defense" avant la lettre -- a bungling bogus sham that was deliberately designed to fail.

NORMAN INTENDED TO DEFAULT ALL ALONG

There is sold evidence that Montagu Norman's decision to provoke a British default on gold payment dated back to mid-July, 1931, well before the pound got into trouble. The following is an account of Montagu Norman's meeting with the German delegation during the London Conference of July, 1931, which had been called together to deal with the crisis of the German banks and currency. Norman's preferred recipe for Germany was default on gold payment, standstill agreements, and a possible debt moratorium. As we see here, Norman told German State Secretary Schaeffer that in a few weeks it would be clear what he was driving at -- which in retrospect was understood by all concerned as an allusion to Norman's own coming British default on gold payment:

> "Zur fuer die ganze Konferenz entscheidenden internen Sitzung kam es am 21. [Juli 1931] in der britischen Treasury, an der Reichskanzler Bruening, Ministerialdirektor Schwerin-Krosigk, Staatssekretaer Schaeffer und Geheimrat Vocke auf deutscher und Montague Norman, Sir William Leith-Ross und Waley auf britischer Seite teilnahmen. In dieser Sitzung erklaerte Montague Norman mit aller Offenheit, dass er bei vollem Verstaendinis fuer die deutsche Lage nicht imstande sei, ueber die Bank von England zu helfen, da dise selbst durch die anhaltende Geldabzuege der letzten Tage (taeglich bis zu 2 Mill. Pfund) unter schwerstem Druck stehe. Sein einziger - und unter den gegebenen Verhaeltnissen auch einzig moeglicher - Rat waere, die Konferenz schnell zu beenden, deutscherseits selbst private Stillhaltevereinbarungen mit den Auslandsglauebigern zu treffen, gegebenfalls ein Auslandsmoratorium - und im Inneren Suspendierung der Goldeinloesungs- und Golddeckungspflicht, mit anderen Worten genau das, was England acht Wochen spaeter selbst zu tun gezwungen war. Dass Norman dabei bereits an diese spaetere eigene Politik dachte, geht daraus hervor, dass er im Anschluss an die Sitzung Staatssekretaer Schaeffer persoenlich erklaerte, dass Schaeffer ihn in wenigen Wochen wohl verstehen wuerde." [Rolf E. Lueke, Von der Stabilisierung zur Krise (Zuerich: Polygraphischer Verlag,)

This report not only illuminates the timing of Norman's decision to default. It also shows how explicitly Norman pushed Germany into the status of an autarkical currency bloc, with all international payments subject to strict government controls.

On August 23, Norman (who was nursing one of his periodic nervous breakdowns in Canada) talked by telephone with Harrison of the New York Fed. Harrison asked Norman if he though that the austerity program proposed by the new British National Government were adequate. Norman replied that he believed that the austerity program was not adequate, and that any inadequate program was bound to cause trouble within a year or so. Norman recommended exploiting the current crisis to force through an economic adjustment featuring a drastic reduction in wages and in the cost of production, so as to make British goods competitive again. If this were done, Norman thought, there would be no need for any loans. Harrison objected that it might be risky to rely exclusively on a balanced budget to defend a currency. Norman was signalling a new defeatist policy for the Bank of England -- one that impotently called on the British government to impose more austerity.

HARVEY LIES TO THE CABINET

The Deputy Governor of the Bank of England, Sir Ernest Harvey - the man who actually terminated the British gold standard - was uniformly defeatist throughout the crisis. At a cabinet meeting on September 3, Harvey expressed his conviction that "the future course of events depended largely upon the attitude of the British public towards the Government's proposals." This view, expressed at the height of the crisis, was at odds with the entire Bank of England and postwar central bank ideology, which stressed the autonomy and power of the central banks over the flailing of the politicians and governments. For three centuries the Bank of England had considered itself responsible for the fate of the pound; now Harvey was talking out of the other side of his mouth. This reversal of attitude was also expressed in Lord Norman's constant refrain that the crisis of the pound had to be solved by a balanced budget on the part of the British government, and not by an increase in the Bank Rate of other measures which only the Bank of England itself could take.

As contemporary observer Palyi writes, "several 'eyewitnesses' have told this writer that both those in the Treasury and in the Bank had convinced themselves that Britain's house could not be brought into order without first 'teaching a lesson' to a public which was either indifferent or indolent." [Palyi, p. 269] But that was a cover story for deliberately scuttling the pound.

At that same cabinet meeting of September 3, Sir Ernest Harvey told the cabinet that total losses by the Bank of England since the beginning of the crisis amounted so far to 130 million pounds in gold and foreign exchange. Harvey then deliberately lied to the cabinet, stating that since the loans made to London by the foreign central banks would have to be repaid in gold if they could not be paid any other way, this "amounted in effect to a lien on a portion of their existing gold holding and reduced their actual free holding to little more than 80 million pounds or about the equivalent of the new government credit." As one historian comments, "This alarming exposition of the credit agreements was...seriously misleading. They did not provide for a lien on the Bank of England's gold or anything close to it. Rather they contained a gold payment clause which required that payment be made in gold." [Kunz, p. 122]

LONDON REFUSES TO RAISE BANK RATE TO CRISIS LEVEL

As Robbins notes, the monetarist orthodoxy of British financial experts between the two world wars was that if a country got into economic trouble, "You must put up your bank rate and you must limit your fiduciary issue. Anything else is bad finance." Curiously, when the terminal crisis of Montagu Norman's much-vaunted gold standard finally arrived, the British did neither of these things.

British monetarist ideology featured the faith that an increase in the Bank of England's bank rate could pull gold up out of the ground, or even attract gold to London from the moon. The bank rate was at the heart of the entire British fetish of usury.

Fiduciary issue of currency was a means used to regulate the supply of credit. These were extra bank notes issued by the central bank. Cutting fiduciary issue would have meant a credit contraction - tight money. In the midst of the summer, 1931 pound and gold crisis, the British actually increased their fiduciary issue, when their own orthodoxy would have dictated a sharp cut. But the Norman's Bank of England persistently increased fiduciary issue in the face of the crisis.

NORMAN'S REFUSAL TO HIKE THE BANK RATE

As for the Bank Rate, the Bank of England acted in violent contradiction to its own monetarist orthodoxy. As one scholar later summed up:

"On May 14 [1931], immediately after the collapse of the Kredit-Anstalt, the Bank Rate was actually lowered, from 3 to 2 1/2 per cent. It was not changed until July 23rd, when at last it was raised to 3 1/2 per cent. During the last week or so of July the Bank of England lost over 25 million pounds in gold. On July 30th the Bank Rate was again raised, but only to 4 1/2 per cent, and there it remained until September 21st. Great Britain had always advocated a high Bank Rate as the remedy for a financial crisis and a drain of gold. She had been on the gold standard, in effect, for over two hundred years, with only two breaks - one during the Napoleonic wars and one during the last war [1914-1925]. Now for the first time in her history she suspended gold payments in time of peace and with a Bank Rate of 4 1/2 per cent ! Does it follow that the British monetary authorities were secretly glad to leave the gold standard? ....why was the Bank Rate not raised but actually lowered after the Kredit Anstalt closed? Why was it not raised to 8 per cent or perhaps 10 per cent in July or even in August?" [Benham, Monetary Policy, pp. 9-11] These are good questions.

Back in 1929, when Montagu Norman had been concerned with precipitating the New York stock market panic, 6.5% had not seemed too high a Bank rate in view of the desired result. In April 1920, when the Norman had wanted to undercut New York, the Bank Rate reached 7%, and had stayed there for a full year. But now, 4.5% was the nec plus ultra.

A worried J.P. Morgan of New York cabled on September 7 to Morgan Grenfel in London:

> "Are the British Treasury and the Bank of England satisfied that the present method of dealing with the sterling exchange is the best that can be devised? In this connection the question naturally arises as to why the Bank of England does not use the classic remedy of Bank Rate instead of apparently pegging the exchange." [Kunz, p. 126]

Apologists for Norman and his retainers have advanced various lame arguments to explain the gross treachery of Threadneedle Street. One argument was that the British domestic economy was already too depressed to survive a rise in the Bank Rate. But on September 21, after defaulting on gold, the Bank of England raised the Bank Rate to 6% and left it there for five months, regardless of the impact on the credit-starved domestic British economy.

Then there is the argument of "prestige," which claims that radically to raise the Bank Rate under the pressure of foreign gold demands would have undermined the prestige of the pound sterling. Was it then more prestigious to default?

> "It had been intimated that the decision to devalue was due to British 'sensitivity': the Treasury and the Bank found it 'undignified' to balance the national budget under pressure of foreign bankers. Was their dignity better served by defaulting?" [Palyi, p. 294]

As the same author sums it up, "the reluctance to use the discount weapon was at the root of the widely disseminated charge that 'perfidious Albion' had intentionally 'trapped its creditors," especially given the fact that British foreign obligations were denominated in pounds, not in the currency of the lending country. So these foreign obligations could be paid off in cheaper pounds after a default and devaluation.

THE FRANCO-AMERICAN LOANS

The British judged that their sham defense of the pound required at least some semblance of support operations for their own currency in the international markets. For this purpose, it was decided to procure loans from the United States and France for these support operations. The main effect of these loans was to make the lquidity crisis that followed the British default more acute in both Paris and New York.

British representative H.A. Siepmann arrived in Paris on August 24 to begin negotiating the French loan. Given the fast pace of the crisis, Siepmanm should have been a man in a hurry. But Siepmann "took the approach that the question of a credit was not a top priority matter, a rather suprising one in the cirumstances and one that not only confused Governor Moret but diverged totally from the viewpoint held by Morgan's (N.Y.) and Harrison" at the New York Federal Reserve. [Kunz, p. 113]

Morgan's for its part had been reluctant to undertake the British loan. The mood among other American banks was shown by the unprecedented number of refusals to participate in the underwriting of the loan which arrived in response to the offer cable sent out by Morgan's. Banks refusing such an offer ran the risk of being excluded from future Morgan loan syndications. The refusals show the extreme liquidity anxieities already besetting the US bankers.

This state of affairs is reflected in the following cable from Morgan, New York to Chancellor of the Exchequer Philip Snowden in London:

> "In reference to the proposed interest rate in America we may emphasize that there is not a single institution in our whole banking community which actually desires the British Treasury Notes on any terms either as to commission or interest.....Every institution is probably making strenuous endeavours to get its position more liquid." [Kunz, p. 116-117]

As it was, the British took in the loans, which were obtained by the British Exchequer from New York and Paris. Starting on August 1, the British government organized a loan of $250 million, mainly from the United States. On August 26, the British requested and were granted a further US loan of $400 million. [Hoover, pp. 81-82]

The British loan was the biggest made by Morgan between the world wars. The loan took the form of a pledge by Morgan and 109 other American banks to purchase dollar-denominated Treasury Bills of the British government for periods of 30, 60 and 90 days.

AUGUST 4 CRISIS- NO INTERVENTION BY BANK OF ENGLAND

During the first days of August, the British authorities announced that they would receive loans from foreign central banks for the purpose of conducting support operations for the pound sterling. But on August 4, the Bank of England and its agents were inexplicably absent from the currency markets, and the pound quotation collapsed below the gold export point to New York. Norman and his crew had "forgotten" to defend the pound that day -- clearly a conscious decision to sabotage their own pound. The confidence-building effect of the central bank loans was completely dissipated. To make matters worse, support operations seem to have been virtually "forgotten" again two days later.

GOLD SOVEREIGNS SUSPENDED

Around the middle of September, the Bank of England suddenly discontinued its habitual practice of paying out gold sovereigns -- that is, gold coins -- to those who wanted to exchange pound sterling banknotes. This measure came at a time when gold bullion was still freely available for those who wanted to trade in larger sums. This amounted to the transition to a gold bullion standard. Bu the effect on market psychology turned out to be catastrophic. The suspension of official payment in gold sovereigns was seen for what it was - the immediate prelude to the default on all gold payment.

AFTERNOON POUND BREAKS IN NEW YORK

On August 29, Morgan partner Thomas Lamont send a cable to Grenfel in London commenting on the loss of confidence in the British government that was spreading on Wall Street. A cable two days later stressed the concern felt at Morgan's New York about "the poor handling of the sterling exchange, a symptom of which was the frequent breaks in the value of sterling in the New York market after the London market had closed. It apppeared that the Bank of England agents in New York were setting their watches to London time, and knocking off for the day after lunch. When the pound crashed just before tea-time, Norman's minions were at home.

NO ATTACKS ON BEARS A LA POINCARE

In the same missive, Morgan's (N.Y.) also suggested better liaison between the Bank of England, the Bank of France and the FRBNY so that the credits would become an offensive weapon rather than a sitting duck for rapacious financiers." [Kunz, p. 120] To be effective in stopping speculation, the monetary resources obtained by the Bank of England had to be employed dynamically. The Bank of England could not just sit there, buying unlimited quantities of pounds at the floor price. Rather, the money had to be used aggressively to buy pound futures so as to drive the pound quotation up, if only temporarily, with the result that some of the specualtors who had sold the pound short would have been severely burned. The pound would have received additional support through short covering purchases. The Bank of England needed to organize a short squeeze or bear squeeze so as to create genuine doubt about whether shorting the pound was a sure way to lock in profits. Bear squeezes and short squeezes had been actively organized by French Premier Poincare' during his defense of the French franc some years earlier.

ONLY 2 SMALL BANKS USED

Another feature of Norman's Singapore defense was the method used to organize support operations for the pound. All support operations were conduited through two small banks. Support operations against the dollar were done through the British Overseas Bank, and support operations against the franc were done through the Anglo- International Bank. This absurd method guaranteed that everyone in the markets knew exactly when and in what amount the Bank of England was interveneing, and that everyone also soon knew exactly how much of the various French and American support loans remained unused. If it had wished to be effective, the Bank of England would have intervened in its own name, and would also have conduited other operations through the big British clearing banks. The small size of the banks actually used also limited the amount of pound futures they could buy, since their credit was so limited.

LOW FORWARD PRICE OF POUNDS

On September 1, Morgans (N.Y.) cabled their London partners an analysis of the London and New York sterling markets with special focus on the weakness and lack of depth of the forward market. [Kunz, p. 121] The elementary strategy for defending the pound would have been to keep the price of pound futures above the spot price for pounds in the cash market. If that could be accomplished, arbitrageurs would have been impelled to sell the pound futures and buy the spot pounds, generating an updraft around the pound quotations. But if pound futures were allowed to sink lower than current pounds, financiers would obviously sell pounds and buy pound futures to lock in their profit.

POUND PEGGED TOO HIGH

Harrison of the FRBNY cabled Harvey on September 3 that in his opinion the British were attempting to peg the pound/dollar rate much too high. The British were attempting to support sterling at $4.86 to $4.86125, which was considerably above British gold export point. In Harrison's view, the artifically high peg only encouraged sales of sterling. Harrison wanted the pound to

fluctuate just above that currency's gold export point. Harvey declined to make this change, saying that although he was in general agreement this was not the time to change tactics. [Kunz, p. 121]

DUTCH GUILDER RATE NEGLECTED

In yet another deliberate British fiasco, while the pound to dollar and pound to franc rates were supported, the pound to Dutch guilder quotation received no support of all. Given the considerably importance of the Dutch currency at the time, this was insane folly. The pound/guilder exchange rate went below the gold export point in September, and significant amounts of British gold were shipped to Amsterdam during the final phase of the bogus defense of the pound.

FOREIGN SECURITIES NOT USED

Lord Reading, the Foreign Secretary, suggested to Snowden between September 10 and September 14 that the Treasury prepare a plan for the mobilization of foreign securities held in Britain for the purpose of depending the pound. Reading thought that this operation could be modeled on the methods used for the same purpose during the First World War. Lord Reading also wanted MacDonald to order the Bank of England to prepare detailed financial data for the use of the Financial Subcommittee of the cabinet, composed of MacDonald, Snowden, Reading, and Neville Chamerlain. [Kunz, p. 129] None of this was carried out.

BRITISH SPECULATORS: OWN GOAL

On Monday, September 14, there was the first meeting of the Financial Subcommittee of the cabinet. Lord Reading wanted to determine exactly who it was that was dumping all the pounds on the international markets. Reading thought that many sales appeared to be British-inspired, and that the cabinet ought to consider a method of cracking down on such transactions. Harvey, who was present, expressed pessimism about the ability of the Government or the Bank to halt British flight capital, and "he further made the false statement that the sale of sterling by British citizens was not really an important problem."

Harvey himself knew this was nonsense. In reality, "Harvey had been sufficiently alarmed about British sales of sterling to write to various culprits such as Lord Bradbury to ask them not to continue to purchase dollars. Also Fisher had told [US diplomat] Atherton that internal capital flight was one of the causes of Britain's problems. As the Bank of England, not the Treasury, kept track of currency movements, Fisher could only have known this if the Bank so informed him." [Kunz, p. 143]

The London Daily Star was upset enough about flight capital to write that if the National Government were really national, "it could act at once against the traitors who are sending their gold abroad...." [New York Times, September 18, 1931]

On the fateful Default Day of September 21, 1931, the New York Times related the comments of the London correspondent of Le Matin of Paris. This journalist, Stephane Lauzanne, is quoted as saying:

> "The most recent purchases of foreign exchange were not undertaken for foreigners, as is stated in the official British statement, but in fact by British subjects. There were considerable withdrawals of foreign capital, but these took place mostly several weeks ago. During the past few days I have been assured by one of the most influential representatives of French banking circles in London that to his personal knowledge orders for the sale of sterling and purchases of dollars were given to the London banks by great numbers of British clients. Even as late as Saturday [September 19] 10,000,000 pounds left the Bank of England's vaults." [New York Times, Monday September 21, 1931] Even on the eve of the default, London was still exporting capital - getting the most out of available pounds to buy up assets around the world.

THE INVERGORDON FARCE

In late September 1929, Norman had used the Hatry bankruptcy as a pretext for raising the Bank Rate, which he had wanted to do for reasons of economic warfare against the USA. In 1931, an indispensable part of the orchestration of the British default was an alleged "mutiny" in the Royal Navy in protest over pay cuts.

On Tuesday, September 15, Sir Austen Chamberlain, the First Lord of the Admiralty, informed MacDonald of a trifling incident which had taken place at Invergordon. About 500 sailors of the Royal Navy had assembled for meetings to discuss the pay cut for experienced seamen which the National Government was proposing. The seamen ignored orders to return to their ships until their protest meetings were over. In response, the Admiral of the British Atlantic Fleet announced the postponement of the scheduled naval maneuvers, and also the dispersal of the Atlantic fleet to its various home ports. It was these latter actions which "elevated what might have remained a small incident into a mjor occurrence. Sensational headlines around the world pointed to the parallels to the Russian revolution of 1905 and 1917 and the German revolution of 1918, both of which had been marked in their early phases by fleet mutinies. The Revolution was about to overpower the Royal Navy itself! In addition to this hysterical hype, there was also the sense that the austerity program would have rough sledding from other groups in Britain as well. [Kunz, p. 131]

THE BANK OF ENGLAND DEMANDS DEFAULT

A despatch of September 17, 1931 to the New York Times reported that Sir Ernest Harvey, Deputy Governor of the Bank of England, and other financial leaders had gone that evening to the House of Commons to convey to Prime Minister Ramsay MacDonald "a grave warning that the stability of the pound was again imperiled." "It is stated that they gave two reasons for this emergency - first, the naval unrest, and, second, the report that a general election was imminent."

Saturday September 18 was the day the British cabinet officially decided to default on Britain's gold obligations. MacDonald

called it the most solemn conference ever held at 10 Downing Street. True to form, it was the Bank of England that proposed the abrogation of the gold standard through the mouth of its Deputy Governor, who announced that the only course of action left was for Britain to leave the gold standard. [Kunz, p. 135] Harvey deliberately created the false impression that he had discussed the situation after the close of trading on Friday with Harrison of the New York Fed. This was not true. Harvey, in response to a question from MacDonald, added that he did not think it worthwhile to raise even 100 million pounds ($450 million) if people were only going to withdraw it. MacDonald quickly agreed to default, and the rest of the cabinet meeting was devoted to technical details of how to terminate the gold standard. [Kunz, p. 135]

It was only on Saturday, September 19 that Harvey informed Harrison of the New York Fed of what the British government was now doing. Harrison was described as greatly shocked by this decision, which came as a surprise to him. Harrison persisted for a time in exploring possible alternatives to London's default, and offered further loans. [Kunz, p. 137] But the Bank of England remained committed to immediate default. More help could have been obtained from Paris as well. Then there is the embarrassing fact that during the last week of the gold standard the Bank of England's gold stocks INCREASED from 133,300,000 to 135,600,000 pounds. [Palyi, p. 277]

THE END OF THE WORLD

On Sunday, September 20, 1931, the British government issued its statements announcing its decision to "suspend for the time being" the clause of the Gold Standard Act of 1925 requiring the Bank of England to sell gold at the fixed price. All the other elements of the official British mythology were also present. "His Majesty's Government have no reason to believe that the present difficulties are due to any substantial extent to the export of capital by British nationals. Undoubtedly the bulk of withdrawals has been for foreign accounts." The bloody wogs, as we see, were once again the root of the problem. Furthermore: "His Majesty's Government have arrived at their decision with the greatest reluctance. But during the last few days international markets have become demoralized and have been liquidating their sterling assets regardless of their intrinsic worth. In the circumstances there was no alternative but to protect the financial position of this country by the only means at our disposal." As we have seen, there were other means. Finally, there was the obligatory stiff upper lip: "The ultimate resources of this country are enormous and there is no doubt that the present exchange difficulties will prove only temporary." [New York Times, September 21, 1931]

The worldwide shock was severe. In the words of Jackson E. Reynolds. then President of the First National Bank of New York, "when England went off gold it was like the end of the world."

THE BANKERS' RAMP

With the help of demagogic headlines in the London afternoon tabloids, the British oligarchy placed the blame for the fall of the mighty pound on a "bankers' ramp" led by foreign central bankers. A favorite target was poor George Harrison of the New York Federal Reserve, who was rewarded with slander and obloquy for his pathetic and servile devotion to the currency of British imperialism. Another fall-guy was the Banque de France.

One British chronicler of these times sums up the official line of scapegoating the foreigners as follows: "It was basically the American trade cycle, and not British monetary policy, that made life so wretched for us." [R.S. Sayers, 97]

JACQUES RUEFF ATTACKS BRITISH HANDLING OF CRISIS

During the weeks of the British crisis, the economist Jacques Rueff was serving as the Financial Attache at the French Embassy in London. This meant that Rueff was in practice the manager of the French sterling balances.

Palyi cites the "'posthumous' charge by Rueff that the "Bank of England defaulted intentionally in order to damage the creditor central banks, the Bank of France in particular...." [Palyi, p. 268]

On October 1, 1931, Rueff completed his memorandum entitled "Sur les causes et les enseignements de la crise financière anglaise," which was intended to be read by French Finance Minister P.-E. Flandin and the French Prime Minister, Pierre Laval.

Rueff first described the modes of intervention of the Bank of England: "Elle avait...deux instruments: le taux d'escompte et la politique dite d''open market'....Depuis 1929 la Banque d'Angleterre a constamment utilisé ces deux instruments pour maintenir aussi bas que possible les taux en vigueur sur le marché de Londres. Elle a toujours retardé aux maximum les élévations de taux d'escompte qui s'imposaient, cependant qu'elle cherchait à augmenter, par ses achats de valuers d'Etat, l'abondance monétaire du marche." [Jacques Rueff, De L'Aube au Crépuscule, p. 301]

For Rueff, the British were guilty of violating the implicit rules of the gold exchange standard, since they tried to maintain their liquidity despite a gold outflow. "on peut affirmer notamment qu'en 1929 et 1930, presque sans exception, la politique d''open market' de la Banque d'Angleterre a été faite à contresens. Les mouvements d'or, en effet, tendent à se corriger eux-mêmes, puisque toute sortie de métal tend à provoquer une restriction de crédit, qui hausse les taux du marche. Or, en 1929 et 1930, toutes les fois que de l'or sortait de la Banque d'Angleterre, celle-ci achetait des valeurs d'Etat sur le marché, remplacant ainsi les disponibilites qui venaient de dispara&itremas;tre." [302]

> "Autrement dit, pendant les deux années 1929- 1930, la Banque d'Angleterre a constamment paralysé le jeu des phénomenes qui tendaient à adapter la balance des paiements anglais aux nécessites résultant de la politique économique

> suivie par le pays." [p. 303]

Because of these policies, Rueff found, the British had weakened themselves even before the German crisis had begun: "Or, en 1931, ces fautes ont été commises, provoquant des mouvements de capitaux qui ont été mortels pour le change anglais. Il est très probable que l'Angleterre aurait pu y résister, si elle n'avait pas été mise préalablement dans un état de paralysie économique et financière, interdisant à son organisme les réactions spontanées d'un marche normal." [p. 303]

Rueff repeatedly condemns Stimson's intervention at the London Conference of July, 1931 with the proposal for standstill agreements which immediately created a liquidity crisis and put world banking in difficulty: "Toutes les banques du monde, voyant soudain immobilisé une fraction très importante de leurs capitaux a court terme, ont cherché à récupérer toutes les réserves qu'elles pouvaient rendre disponibles." [304}

But the British always blamed the wogs:

> "...l'opinion britannique ...recherche a l'exterieur la cause de ses difficultés." [305]

The British had been wallowing in a depression since 1918, and that for them made it a world economic crisis: "Il faut d'abord remarquer que, pour l'opinion britannique, la crise économique d'après guerre n'est pas chose nouvelle. Depuis que l'Angleterre souffre du chomage permanent - c'est- à-dire depuis la guerre - l'opinion britannique et les experts anglais affirment que le monde est en état de crise. Depuis la guerre, même lorsque le monde, sauf l'Angleterre, était en pleine prospérite, les représentants britanniques ne cessaient de demander à la Société des Nations de trouver un remède à la crise économique, qualifiée de mondiale parce qu'elle affectait les intérêts du Royaume-Uni de Grande-Bretagne et d'Irlande." [307]

A key British problem was their high unemployment, which they had chosen to deal with by means of payments to the unemployed, called the dole: "Et cela explique que la hausse des prix soit pour l'Angleterre, dans le régime ou elle s'est volontairement placée, une nécessité vitale. Ayant fixe une catégorie des prix, elle est conduite à vouloir y adapter tour les autres....Cette hausse des prix anglais peut, il est vrai, être réalisée sans hausse des prix mondiaux, par la dépréciation de la livre sterling et aussi - bien que dans une mesure probablement insuffisante - par un tarif douanier. D'ou des diverses solutions envisagées en Angleterre, l'une d'entre elles - la dépréciation monétaire - étant déjà en voie de réalisation...." [308-309]

For Rueff, all British proposals for international monetary cooperation were strategems designed to shift the crisis from Britain to the rest of the world: "Il reste enfin à évoquer la dernière des formules par lesquelles l'Angleterre prétend que le monde devrait etre reconstruit: la cooperation financière internationale. C'est là un programme dont le sens n'a jamais été défini, probablement parce qu'il n'en a aucun....Il n'est pas douteux que tous les plans présentés à Genève ou a Bale, plan Norman, plan Kindersley, plan Francqui, tendent seulement a réaliser le trust des entrprises en faillite et a y investir des capitaux qui sans cela se seraient refusés. Par là, ils sont un merveilleux instrument pour transférer les difficultes financières des Etats qui les ont provoqués, a ceux qui ont été assez sages ou assez prudents pour s'en préserver...Tel est d'ailleurs le sens profond et l'objet véritable de tous les efforts tendant a réaliser la solidarité internationale, solidarité que l'on invoque toujours lorsque l'on veut profiter de la prosperité des Etats voisins, mais jamais lorsque l'on peut leur venir en aide." [318-319]

Rueff suggested a Franco-American accord capable of putting an end to the British game.

THE BANK OF ENGLAND'S DUTCH TREAT

By September 20, most of the sterling balances held by foreigners who were disposed to liquidate them had already been liquidated. The exception were sterling balances held by foreign central banks, like the Dutch, and these would be loyal to London, partly because their estimate was that the crisis was not so severe as to force the British off gold. The little people of the British public were proving docile enough to make no attempt to turn in their pound notes for gold. The Big Five clearing banks were undisturbed by panic runs or the specter of insolvency.

There is no doubt that during the weeks before default, the Bank of England practiced the most cynical deception on other central banks. The Bank of England twice assured the Bank of South Africa that it would do everything in its power to maintain gold payments. The Bank of England acted with great treachery towards the Netherlands Bank, the central bank which had shown itself to be the truest friend of the pound, supporting it in crisis after crisis. The president of the Netherlands Bank, Mr. Vissering, telephoned the Bank of England on September 18, 1931 to enquire whether there was any truth to the rumors about a forthcoming sterling devaulation. The Bank of England official who answered the phone emphatically denied that there would be a devaluation, and offered to pay off the Netherlands Bank sterling balances in gold on the spot. The Dutch decided to keep their gold in London.

A few days after the call summarized above, "Dr. G. Vissering of the Netherlands' Central Bank called Harvey to request that the Dutch gold held by the Bank of England be earmarked [separated from the Bank of England stocks as a preliminary to shipment to the Netherlands]. Harvey huffily refused, saying that the Dutch could either take their gold back to Amsterdam or keep it in London but if they chose the latter course they would not be placed in the position of a preferred creditor. Vissering backed down. To assuage Vissering's fears Harvey wrote him about the credits and stressed the total committment of the National Government to the maintenance of the gold standard [Kunz, pp. 119- 120] As a result, "the Netherlands Bank felt, and for good reason so, that it had been deceived by the Bank of England, a turn that was scarcely befitting Norman's idea of central bank cooperation, or the 'ethics' of the gold standard." [Palyi, p. 278]

The Netherlands Bank thought that the Bank of England should safeguard the Netherlands Bank against all the sterling losses to which it was subjected. A discussion of this British betrayal is found in the 1931-32 Annual Report of the Netherlands Bank. [see Brown, vol, 2, pp. 1170-1172]

Montagu Norman claimed that he had personally not been a participant in the decision to default on gold. As we have noted, Norman's cover story was that he had suffered a nervous breakdown, and had taken a vacation at the Chateau Frontenac in Quebec, Canada. When the Bank of England suspended gold payment, Norman was on board ship in the middle of the Atlantic. Norman claims that he knew nothing of the decision to go off gold until he landed at Liverpool on September 23. Norman was thus able to blame the default on one of his resident whipping-boys, Deputy Governor Sir Ernest Harvey. Harvey himself suffered a nervous breakdown because of the stress of serving under Norman.

When the British stopped paying in gold, they were quickly followed by Denmark, Sweden, Norway, Holland, Bolivia, and India - most of whom were candidates for inclusion in the sterling bloc. Other countries, including Greece, Italy, Germany, Austria, and Hungary were already operating under exchange controls and other measures which effectively prevented gold outflow. [Hoover, p. 82]

The British strategy for saving the golden pound had included histrionic international appeals from Prime Minister Ramsay MacDonald, who pleaded with other countries not to drain off the last of the British gold. After the British had defaulted, MacDonald's perfidy caused much resentment abroad. In the words of an American economist, "Hardly had Ramsay MacDonald stopped sobbing over the international radio that Britannia should not be forced to sacrifice her honor, than he began to smile broadly because the fall of the pound gave her marked advantage in exports." [Mitchell, p. 14]

THE BRITISH GAME

A British estimate of the London predicament of the early 1930's reads as follows: "...Great Britain is a highly populated industrial country, carrying a terrific burden of internal debt, dependent predominantly for existence on foreign trade, enjoying the benefits of being the world's chief banking centre, possessed of a large net income from long-term investments abroad, but heavily indebted (in her role as world's banker) to other centres on short- term account." [Economist, September 26, 1931, p. 548]

The British racket up until September 1931 had been to use a high pound to maximize their buying up of the world's productive assets and resources. After September, 1931, a devalued pound meant that pound-denominated foreign claims on the British financial system - and these were the vast majority - were automatically reduced.

Five months after the British default, Norman and the British oligarchy embarked on a policy of cheap money. At this time a series of Bank Rate reductions was started which soon brought the discount to 2.5%, where it stayed for many years. Montagu Norman himself, the former gold addict, became the main theoretician of Cheap Money in the new era of competitive monetary devaluations. The British stock market quickly recovered amd kept rising during most of the 1930's. But unemployment hovered around 2.5 million until the beginning of the Second World War.

"For years, Continental opinion had been coming to the view that the British system was dying of ossification," wrote Lionel Robbins [p. 93] "Now the British had increased their own relative importance compared to their continental rivals, who had joined them in perdition."

The post-1931 British strategy also included Imperial Preference and trade war: "Britain entered the lists with the Import Duties Act of March, 1932 (reaching 33 1/3 per cent), and the later Ottawa Agreement establishing empire tariff preferences spurred other countries in the process of retaliation. Sterling losses of so many countries spread deflation through the struggle for liquidity. The contest between economies that remained on gold and those that had left it became acute." [Mitchell, p. 14]

Soon, US exports to the rest of the world had dropped to about one third of their 1929 level. [Hoover, p. 83] European purchases of American agricultural products ceased almost entirely. US unemployment increased rapidly. Tax revenue fell by 50%. [Hoover, p. 89]

BRITISH DEFAULT: TEN MORE YEARS OF WORLD DEPRESSION

The Gibraltar of British Empire finance had crashed. The old saying, "as safe as the Bank of England" was now a mockery. "It was only vaguely understood, if at all, that at stake was what is called today the 'world monetary system.' It was still a sterling system. The likely alternative to...the gold standard, at the old sterling parity, may have been the breakdown of that system. That is what happened after September, 1931.' [Palyi, p. 86] "The cooperation of the central banks in the 1920's ended in a breakdown of the entire system, having been essentially a cloak that masked the ultimate purpose of its chief ingredient, the gold exchange standard, which was to maintain Britain's gold standard without obeying the rules of the gold standard." [p. 146]

During the 18-month period after the British default, most world currencies also terminated gold payments through external default. Until March, 1933 the US dollar and some of its satellite currencies in central America were able to keep up payments on gold. Otherwise, the gold standard was maintained by a group of countries called the "gold bloc," comprehending France, Holland, Belgium, Switzerland, Italy, Poland, and Estonia. Estonia was forced off gold, and Italy and Poland imposed gold export controls. The Belgian franc was devalued in March, 1935. France imposed a gold embargo in September, 1936. Switzerland and Holland announced devaluations immediately thereafter.

Of the fifty-four nations that had been on the gold standard at some timne between 1925 and 1931, none remained on gold in 1937. The world monetary system had indeed disintegrated.

CHART: COUNTRIES LEAVING THE GOLD STANDARD

APRIL 1929 - APRIL 1933

1929

APRIL - URUGUAY

NOVEMBER - ARGENTINA

DECEMBER - BRAZIL

1930

MARCH - AUSTRALIA

APRIL - NEW ZEALAND

SEPTEMBER -VENEZUELA

1931

AUGUST - MEXICO

SEPTEMBER - UNITED KINGDOM, CANADA, INDIA, SWEDEN, DENMARK, NORWAY, EGYPT, IRISH ,FREE STATE BRITISH MALAYA, PALESTINE

OCTOBER - AUSTRIA ,PORTUGAL, FINLAND ,BOLIVIA, SALVADOR

DECEMBER - JAPAN

1932

JANUARY - COLOMBIA, NICARAGUA, COSTA RICA

APRIL - GREECE, CHILE

MAY - PERU

JUNE - ECUADOR ,SIAM

JULY - YUGOSLAVIA

1933

JANUARY - UNION OF SOUTH AFRICA

APRIL - HONDURAS, UNITED STATES

[See Brown, 1075]

BEYOND BREAKDOWN TO DISINTEGRATION

The year 1931 is thus a turning point in the financial history of Europe analogous to 1914 in political-military history: "...because of the profound influence of the war upon the structure of the world's credit system and upon the economic environment in which it operated, 1914-19 was a period that marked the breakdown, rather than the suspension or modification, of the pre-war international gold standard system.......when England suspended the convertibility of sterling in 1931 the international gold standard as a world institution entered into an historical phase which must be described by a stronger term than breakdown. SEPTEMBER 1931 MARKED THE BEGINNING OF ITS DISINTEGRATION." [Brown, p. 1052, emphasis added]

Current historians and economists are fixated on 1929, but there can be no doubt that September 1931 was the more important watershed by far. "Britain's devaluation in 1931 had a psychological and political impact on Europe, and beyond, that can hardly be overestimated. In final analysis, the break-up of the international financial and commercial system was a decisive factor in

balkanizing Europe and preparing the ground for World War II." [Palyi, p. 270] Another writer noted that among the "consequences [of 1931] were an increase of international suspicion and hatred, an inflamed nationalism in Europe and, finally, war." [Giuseppi, p. 164] Indeed.

CURRENCY BLOCS AND THE IMPULSION TOWARDS A NEW WORLD WAR

The scuttling of the pound-based, gold exchange international monetary system of the 1920's was perhaps the most potent underlying factor in the universal renewal of armed conflict that soon followed. When the pound fell, a series of currency blocs emerged somewhat along the prototype of what had emerged under the guidance of Norman and Schacht as the German mark area. These currency blocs included the British pound sterling bloc, the US dollar bloc, the gold bloc (which broke up, leaving a franc bloc along with some other shards), the Soviet ruble area, the Japanese yen zone. The currency chaos meant that there was no reliable means of settling commercial payments among these blocs. World trade atrophied. The situation was difficult for everyone, but it was worst for those blocs which had the greatest dependency on exports and on importing oil, metals, rubber, and strategic raw materials. The pound sterling, dollar, franc and ruble each had some raw materials backing. But the German mark, Japanese yen and Italian lira had virtually none. Each of these states embarked on an economic regime of autarky so as to conserve foreign exchange. For Germany, Italy, and Japan, aggressive territorial expansion towards possible sources of oil and metals became the only available surrogate for foreign trade. The ascendancy of fascism was favored in each case by the penury of world trade, and in each case the British stood ready to promote fascist leaders who would ruthlessly act out this logic, as exemplified by Montagu Norman's role as the premier international patron of Hitler and the Nazis, and as the point man for the pro- Hitler directives which were carried out by Sir Henry Deterding, Averell Harriman, and Prescott Bush.

BEGGAR-MY-NEIGHBOR

The British were aware at the time of the colossal magnitude of what they had wrought, and were certainly aware of how rival states might suffer far greater consequences than the British themselves: "The facts must be faced that the disappearance of the pound from the ranks of the world's stable currencies threatens to undermine the exchange stability of nearly every nation on earth; that even though London's prestige as an international centre may gradually recover from the blow which the sterling bill has received, banking liquidity throughout the world has been seriously impaired, much more so in other countries than this; that international trade must be temporarily paralysed so long as the future value of many currencies is open to grave uncertainty; and that, though the memory of the disastrous effects of post-war inflations should be a useful deterrent, there is an obvious risk lest we may have started an international competititon in devaluation of currencies motived [sic] by the hope of stimulating exports and leading to a tragic reversion to the chaotic conditions which existed five or six years ago." ["The End of an Epoch," London Economist, September 26, 1931, p. 547]

The entire edifice of world trade and world banking had imploded: "The sterling bill enters so deeply into the whole mechanism of international trade, and so many foreign banks, including central banks, have been accustomed to keep a large portion of their reserves in the form of sterling balances in London, that the shock caused by the depreciation of sterling to some 80 per cent. of its value has necessarily been profound....the depreciation of the pound means that the currency reserves of many countries which are kept in the form of sterling balances have been seriously impaired, and the pre-existing strain on the banking system of many centres is bound temporarily at least to be aggravated by the universal shock which confidence has suffered....By our action, the value of the legal backing of a number of currencies has suddenly shrunk." [Economist, September 26, 1931, pp. 550-551]

By October, Perfide Albion was positively gloating about the massive gold outflow from the United States, which many now considered on te verge of a dollar crisis: "The suspension also of the gold standard in Great Britain had three important results. Firstly, it gave a further shock to confidence. Secondly, it prevented foreign banks from drawing upon their sterling balances except at a heavy loss, and so drove them back on their dollar balances. Finally, it destroyed all faith in the safety and efficacy of the gold exchange standard, for foreign central banks found that the sterling exchange which they had legitimately held as part of their legal reserve had lost part of its value, thereby undermining their own stability, and inflicting upon them losses in many cases commensurate with their own capital." [London Economist, "America's Money Problems," October 10, 1931, p. 646] In other words, London's planned default had bankrupted a series of central banks who had deposited their reserves in the Bank of England.

A few weeks later, The Economist commented further: "It was inevitable that the suspension of gold payments in England should have a profound effect upon the position of leading central banks. Some who were engaged in operating the gold exchange standard were in possession of susstantial holdings of sterling as part of their legal reserve against their notes and other sight liabilities while others - such as the Banque de France - held equally large quanities of sterling, even though they were operating on the full gold standard. All these central banks have had to face a 20 per cent. depreciation of their holdings of sterling, which for many of them means a substantial proportion of their legal currency reserves.

"This situation has already had several far-reaching results. Many countries have summarily abandoned the gold exchange standard as a snare and a delusion, and their central banks have begun hurriedly to convert their devisen into gold. The general tendency has been to leave their sterling holdings intact, but to exchange their dollar balances and bills for gold; and this is a major cause of the recent efflux of gold from the United States. Again, commercial banks have not been immune from the consequences of the crisis, and have had to meet the suspicion and distrust of their customers. fostered by very numerous (if not individually very important) bank failures all over the world. They have had to face the immobilisation under the 'standstill' agreement of such part of their assets as they had ventured in Germany and central Europe; they have suffered, in common with the central banks, a 20 per cent. depreciation of their sterling holdings; and, last but not least, they have had to deal with the

widespread dislocation to trade caused by the depreciation of sterling, which is the currency of world commerce. Thus commercial banks have, on the one hand, witnessed an outflow of notes into the hands of distrustful customers, and, on the other hand, they have had to mobilize their available assets, both at home and abroad, in preparation for further demands for currency." ["The Gold Rush," Economist, October 24, 1931, p. 746]

BRITISH DEFAULT PRECIPITATES US BANKING PANIC OF 1932-33

By August of 1931, Keynes estimated that commodity prices on the world market had fallen since 1929 by an average of 25%, with some commodities falling as much as 40 to 50%. Common stock shares had fallen worldwide by 40% to 50%, he reckoned. Investment-grade bonds were down by only 5%, but lower rated bonds were down by 10% to 15%, and the bonds of many governments had "suffered prodigious falls." When it came to real estate, the picture was more differentiated. Great Britain and France had been able to maintain relative firmness in real estate values, with the result that "mortgage business is sound and the multitude of loans granted on the security of real estate are unimpaired." The worst crash of real estate prices had occurred in the United States, Keynes found. Farm values had suffered a great decline, and newly developed urban commercial real estate was depressed to 60% to 70% of its cost of construction, and often less. Finally, Keynes estimated that the commercial loan portfolios held by banks were in the worst shape of all. Keynes evaluated this 2-year collapse as the worst world-wide deflation in the money values of real assets in history. [Essays in Persuasion, pp. 172-175]

Keynes pointed especially to something far worse yet to come, namely the potential world banking crisis that was implicit in the price collapses he had summed up. He concluded that in most of the non-British world, if bank assets were conservatively re-evaluated, "quite a significant proportion of the banks of the world would be found to be insolvent; and with the further progress of Deflation this proportion will grow rapidly." London had the least to worry about, since "fortunately our own domestic British Banks are probably at present - for various reasons - among the strongest." Once again the Americans would bear the brunt of the crisis:

> ...in the United States, the position of the banks, though partly concealed from the public eye, may be in fact the weakest element in the whole situation. It is obvious that the present trend of events cannot go much further without something breaking. If nothing is done, it will be amongst the world's banks that the really critical breakages will occur.
>
> ["The Consequences to the Banks of the Collapse of Money Values," (Aug. 1931) in Essays in Persuasion, p. 177]

During October, 1931, the British default had provoked a flurry of bank failures worldwide:the Comptoir Lyon-Alemand closed; Handels Bank of Denmark needed to be bailed out by central bank, the Bank fuer Handel und Gewerbe, Leipzig, suspended payment, as did the Dresden Volksbank, the Franklin Trust Company of Philadelphia and 18 smaller US banks.

The central banks were so strapped for cash that there was a run on the Bank for International Settelements, which had to sell great masses of its own assets assets in order to meet the cash demands of its members, the central banks.

KEYNES: THE CURSE OF MIDAS

Keynes was very explicit that the most destructive consequences of the British default were going to be visited upon the United States, which was still on the gold standard:

> "...the competitive disadvantage will be concentrated on those few countries which remain on the gold standard. On these will fall the curse of Midas. As a result of their unwillingness to exchange their exports except for gold their export trade will dry up and disappear until they no longer have either a favourable trade balance or foreign deposits to repatriate. This means in the main France and the United States. Their loss of export trade will be an inevitable, a predictable, outcome of their own action. [...] For the appreciation of French and American money in terms of the money of other countries makes it impossible for French and American exporters to sell their goods. [...] They have willed the destruction of their own export industries, and only they can take the steps necessary to restore them. The appreciation of their currencies must also gravely embarrass their banking systems. ["The End of the Gold Standard, (Sept. 27, 1931) in Essays in Perusasion, pp. 292-293]

One possible outcome contemplated with eager anticipation by London was that the gold outflow experienced by the United States after the British default would lead to the short-term collapse of the US dollar. By law, the Federal Reserve in those days had to have sufficient gold to cover 40% of the value of all outstanding Federal Reserve dollar notes. At first glance, that 40% of Federal Reserve notes might have seemed to set the minimum gold stock necessary for the survival of the dollar in its then-current form. But in reality the gold requirements of the US were far greater, precisely because of the ongoing economic depression. The London Economist was aware of this grave vulnerability of the American currency:

> "The real crux of the Reserve system's position is that, while the ratio of the gold cover to its notes need be only 40 per cent., the remaining 60 per cent. of the notes must be covered either by gold or by eligible paper, and this last excludes Government securities bought in the open market, and in practice consists of rediscounted Treasury bills and also of acceptances and other credit instruments based upon trade. Now the depressed state of trade has reduced the Reserve Banks' holdings of assets of this last kind and has forced then en defaut de mieux to add enormously to their holdings of Government securities. The actual figure for the last-named was $728 millions last August, against only $150 million two years before, while during the same period 'eligible paper' had fallen from $1.141 to $316 millions. Add to this the actual and potential increase in the note circulation, and it is clear that this is the major factor in any calculation of the minimum gold requirements of the United States." [Economist, October 10, 1931, p. 647]

THE BRITISH CAST THE CURSE OF MIDAS ON AMERICA

In the event, the impact of the British gold default of Sept. 21, 1931 on the United States banking system was nothing short of catastrophic. Within six weeks, the United States was drained of about $700,000,000 worth of gold. "The rush from abroad to convert dollar balances into gold frightened American depositors, and they began to withdraw currency from their banks." [Kennedy, p. 30] Bank withdrawals were $400,000,000 during these same six weeks [Mitchell, p. 128]. By November, "almost half a billion dollars had gone into hiding," - meaning hoarding, with individuals putting their cash in a safety deposit box, mattress, or old sock. [Kennedy, p. 30]

As soon as the British had carried out their own default, the attention of the City of London turned to the potential for an outflow of American gold: "...Wall Street generally has stood up well to the shock. It would be premature, however, to jump to the conclusion that the full eventual repercussions have yet begun to be experienced in the United States. For one thing, the volume of short-term credits held by France, Holland, and other European countries in New York is very great, and it is significant that already gold in large sums has begun to be withdrawn on foreign account from the Federal Reserve system." [Economist, September 26, 1931, p. 550]

Within just a few weeks, the US gold hemorrhage had become so serious as to threaten the gravest consequences: "The present crisis resembles the onslaught of a thunderstorm in a mountain range, when the lightning strikes first one peak and then a neighbour....Now it is apparently the turn of the United States, for in the middle of September a drain of gold began on a scale comparable only with the gold losses incurred by Germany and Great Britain in earlier months....the total loss is indicated by the contraction of $449 millions in the Federal Reserve Banks' gold reserve between September 17th and October 8th." [Economist, October 10, 1931, p. 646]

And: "It is true that in certain respects the American banking position has been arousing misgivings. The increase in the note circulation shows that hoarding is definitely taking place, and this hoarding is evidence of public distrust in the stability of American banks. The steady stream of bank failures corroborates this. Again, it is realised that depressed trade, and the collapse of security and real estate values during the past two years, has undermined the value of banking collateral and impaired the liquidity of the banks. Still, allowing for these somewhat ominous signs, it is probably true to say that the need of foreign banks to strenghten these home resources was a more cogent cause of the withdrawals." [Economist, October 10, 1931, p. 646]

The Economist was also busy calculating the point at which financial necrosis would set in:

> "...the United States could, at last gasp, part with $1,700 millions of gold, though the National City Bank very pertinently calls this a theoretical maximum." "A rough calculation, however, shows that European central banks together still hold foreign exchange equal to some $1,400 millions." [Economist, October 10, 1931, p. 646]

In 1928, there had been 491 US bank failures. In 1929, the figure had risen to 642. By 1930, as the collapse of the domestic real estate bubble began to take its toll, bank failures had risen to 1,345. In the wake of the British default, American "bank runs and failures increased spectacularly: 522 commercial banks with $471 million in deposits suspended during October 1931; 1,860 institutions with deposits of $1.45 billion closed between August 1931 and January 1, 1932. At the same time, holdings by the 19,000 banks still open dropped appreciably through hoarding and deterioration of their securities." [Kennedy, p. 30] Thus, the disintegration of the London gold standard represented a qualitative turning point in the development of the US banking panic. In terms of individual bank failures, 1931, the year of the British default, was the worst year in American banking history.

The decisive role of the pound sterling crisis in detonating the domestic US banking panic is stressed by another chronicler of the Great Depression: "...in all of 1931, a peak number of 2,298 banks with deposits of $ 1.692 billion succumbed to insolvency. As we have seen, about three quarters of these failures came during or after the British crisis, and the vast majority of the damage to the depositors ($1.45 billion out of $ 1.692 billion) was inflicted during and after the London default." [Mitchell, p. 128]

The shock waves from the London default were felt first and most severely among the American banks of Chicago, Ohio, and other parts of the Midwest, followed by Pennsylvania, New York, and then New England.

The US banking system was now being subjected to the kind of speculative attack foreshadowed by the analysis of Lord Keynes. While some of the demands for gold were coming from France, it is evident that a very large proportion were coming from London, whether directly or indirectly. This was an attack which the Anglophile Hoover, deluded by his personal meeting with Ramsay MacDonald, was ideologically incapable of understanding.

It was in October, 1931 that Hoover broke his long immobilism on the banking question and launched the ill-starred National Credit Corporation, his unsuccessful public-private partnership to bail out the banks. This timing shows that in Hoover's view as well, the London default had been a major milestone on the road to US banking panic.

On the evening of October 6, 1931 Hoover met with 32 Congressional leaders of both parties at the White House. Hoover summarized the world economic situation in the wake of the British default:

> "The British... are suffering deeply from the shocks of the financial collapse on the Continent. Their abandonment of the gold standard and of payment of their external obligations has struck a blow at the foundations of the world economy. The procession of countries which followed Britain off the gold standard has left the United States and France as the only major

countries still holding to it without modification. The instability of currencies, the now almost world-wide restrictions on exchange, the rationing of imports to protect these currencies and the default of bad debts, have cut deeper and deeper into world trade."

Hoover was forced to concede that the once-prosperous US had been dragged down to the same wretched level as the chronically depressed British: "We are finding ourselves in much the same position as the British, but in lesser degree. Long-term loans which we made to Europe and the mass of kited bills bought from them are affecting us sadly with each new default. Like the British, we too are increasingly unable to collect moneys due us from abroad. Extensive deposits in our banks owned by foreigners are demand liabilities on our gold reserves and are becoming increasingly dangerous. After the British abandoned the gold standard, even the dollar came under suspicion. Out of an unreasoning fear, gold is being withdrawn from our monetary stocks and bank reserves. These devitalizing drains and the threat of them hang like a Damoclean sword over our credit structure. Banks, fearing the worst, called in industrial and commercial loans, and beyond all this the dwindling European consumption of goods has decreased purchases of our farm products and other commodities and demoralized our prices, production, and employment. We are now faced with the problem, not of saving Germany or Britain, but of saving ourselves." [Hoover, p. 90]

A day earlier, in a letter to George Harrison at the New York Federal Reserve, Hoover had described the problems created by the British crisis for the individual American banker: "There have been in some localities foolish alarms over the stability of our credit structure and considerable withdrawals of currency. In consequence, bankers in many other parts of the country in fear of such unreasoning demands of depositors have deemed it necessary to place their assets in such liquid form as to enable them to meet drains and runs. To do this they sell securities and restrict credit. The sale of securities demoralizes their price and jeopardizes other banks. The restriction on credit has grown greatly in the past few weeks. There are a multitude of complaints that farmers cannot secure loans for their livestock feeding or to carry their commodities until the markets improve. There are a multitude of complaints of business men that they cannot secure the usual credit to carry their operations on a normal basis and must discharge labor. There are complaints of manufacturers who use agricultural and other raw materials that they cannot secure credits beyond day to day needs with which to to lay in their customary seasonal supplies. The effect of this is to thrust back on the back of the farmer the load of carrying the nation's stocks. The whole cumulative effect is today to decrease prices of commodities and securities and to spread the relations of the debtor and the creditor." [Hoover, p. 87]

On February 7, 1932, Secretary of the Treasury Ogden Mills informed Hoover that the United States was about two weeks away from defaulting on gold payment because of the continued flow of gold out of this country. To this had to be added the dwindling gold stocks of banks, which generally stood ready to convert paper money into gold when depositors asked for it. This gold disappeared domestically as it was added to private hoards.

In principle, the end of the gold standard at this time would have been a blessing in disguise. But given the laissez-faire obsessions of the Hoover administration, it is possible that such a move, especially if carried out in isolation from a general policy reversal in the form of a recovery program, would have engendered chaos. Hoover dodged the main issues by getting the Congress to allow the Fed to use more US Treasury securities in place of part of the gold. With this, the immediate post-British-default gold shortage was averted.

HOOVER IN THE DEPRESSION

Hoover at first attempted to organize the bankers to take care of their own. This attempt was called the National Credit Corporation, a private Delaware firm launched in October, 1931. Upon joining, member banks suscribed 2% of their assets, in return for which they could obtain loans on their sound assets which were not eligible for rediscount at the Federal Reserve branches. But the bankers in charge of thius venture were so reluctant to make loans that the National Credit Corporation proved to be an exercise in futility. Despite new waves of bank failures in December 1931 and January 1932, the NCC lent out only one third of its available funds.

Next, Hoover tried the Reconstruction Finance Corporation, a creature of the federal government set up by Congress with $3.5 billion of stock and cash in Jaunary, 1931. In June 1932, the banking crisis again struck Chicago in the wake of the bankruptcy of the Insull group, with 25 suburban banks and 15 downtown institutions closing their doors in the face of panic withdrawals. Only 5 big banks in the Loop remained. To complicate matters, the Democratic National Convention was about to convene in Chicago. The closure of all Chicago banks would have undermined Hoover's claim that propsperity was just around the corner. The RFC quickly provided a loan which temporarily saved the Central Republic National Bank; this rescue prevented panic runs which would have submerged the other four surviving Loop banks.

The Federal Reserve Board took the attitude that it had no responsibility at all for banks that were not members of the Fed system. From 1929 to 1932 the Fed did virtually nothing to stem the depression. In 1932 Hoover wanted the Federal Reserve banks to start providing the economy with credit in the form of direct lending to businesses, as practised by most European central banks. The Federal Reserve Board feared that issuing such loans would open the door to panic runs on the Federal Reserve banks. The Fed finally agreed to make direct loans, but the new lar carried the proviso that this could be done only in an emergency. In July, 1932, as soon as the direct loan facility had been legalized, Hoover asked the Fed to declare a state of emergency so as to enable the direct loans. But the Fed refused to declare the state of emergency. Senator Carter Glass wanted to prevent Fed credit and loans from being used for speculation, but the New York Fed rejected the idea that the Fed could regulate the uses of the credit it issued. A good summary of the Fed's immobilism and impotence, verging on outright sabotage was offered by one student of the banking crisis:

"The Federal Reserve stipulated that borrowers must prove they could not receive credit elsewhere but also decided that

borrowers did not deserve loans which they would not get elsewhere." [Kennedy, p. 49]

BANKING PANIC: NEVADA

In the last days of the 1932 presidential campaign, the first shutdown of the banking system of an entire state occurred. This was detonated by the insolvency of the Wingfield group, which controlled almost all of the banks in the state. Wingfield was done in by an endless series of bankruptcies and forecosures among cattle and sheep ranchers, whose assets usually brought about 25 cents on the dollar when put up for auction. On October 31, the lieutenant governor of Nevada declared a 12-day bank holiday during which all state banks could remain closed. It was hoped that during this lapse of time some solution could be found to permit business to resume. In reality, the Nevada banks remained closed for about four months, and re-opened only within the framework of Frankiln D. Roosevelt's bank holiday of March, 1933.

Many schemes were tried to revive the Nevada banks. One plan was based on the depositors' takeover of ownership of some banks. Wingfield tried several times to get loans from the Reconstruction Finance Corporation, but these never came to fruition. There were attempts to mobilize the "private sector" through loans from Califomia investors and Nevada industrialists, but these proved equally vain. Nevada as a state was unable to re-open its banks. And as it turned out, no state was able permanently to re-open its banks after they had been closed. The Nevada banking crisis was a small episode in terms of the dollar values involved, its modest dimension only made it loom larger as a public proof of the impotence of all levels of government to act.

In late 1932, increasing numbers of rural banks came under the intense pressure of panic runs by depositors. The RFC was able to stem the tide for a while, and made loans to banks in Wisconsin, Pennsylvania, Minnesota, and Tennessee. During December, 1932, and during the first six weeks of 1933, numerous banks with large aggregate deposits closed their doors in New Jersey, the District of Columbia, Tennessee, Illinois, Iowa, Missouri, and California. Internal documents of the Hoover administration made public later show that lame duck Hoover had been concerned about fighting off imminent panic in such larger cities as Cleveland, Chattanooga, Little Rock, Mobile, St. Louis, and Memphis.

LOUISIANA

The beginning of the end came in Louisiana in early February. Here a large insurance company had succumbed in January, despite some support from the RFC. The key banking institution in trouble was the Hibernia Bank and Trust Company. US Senator from Louisiana Huey Long tried to raise cash from other bankers to prevent banks from closing on because of depositor panic during the morning of Saturday, February 4, 1933. long hurriedly consulted with Governor Allen of Louisiana, his political ally. Sen. Long decided that a bank holiday was in order, and got the New Orleans city librarian to search the history books for some momentous event that had occurred on February 4. The librarian could find nothing on February 4, but did determine that the United States had broken diplomatic relations with Germany on February 3, 1917. Long proclaimed that such a momentous event deserved two days of commemoration, and not just one. Gov. Allen signed the appropriate order, making February 4 a legal holiday across the state. Many people had no idea why the new holiday had been created; one newspaper which did reveal the link to the banking crisis was seized by the state militia under Sen. Long's orders. Thanks to this surcease, the Hibernia Bank was able to announce $24 million in loans on Sunday morning, heading off the panic that might have broken out on Monday.

MICHIGAN: VALENTINE'S DAY BANK HOLIDAY

The final disintegration of the American banking system began with the explosion of a banking panic in Detroit, Michigan. The 1920's had seen the powerful emergence of automobile production as the leading sector of the US economy, and the Motor City was widely viewed as the most successful, dynamic, and forward-looking metropolis of American capitalism. The shock was all the greater when, at 1:32 AM of February 14, 1933, Governor William A. Comstock signed an order imposing an 8-day bank holiday for all of Michigan. The epicenter of the Detroit crisis was the Guardian banking group, which was personally dominated by celebrated automobile tycoon Henry Ford, with some help from his son Edsel. But if Guardian was rotten, its larger rival, the Detroit Bankers Company, which at the time was the third largest US bank outside of New York City, was putrid. When the Reconstruction Finance Corporation was brought in to save Guardian, the RFC board pronounced itself willing to offer loan assistance - but only if Henry Ford lent Guardian some millions of his own money, and agreed to keep the Ford Motor Company's deposits at Guardian at their current level. Walter P. Chrysler of Chrysler Motors, Alfred P. Sloan, Jr. of General Motors, and Hudson Department Stores were ready to lend money to Guardian, but Henry Ford started feuding with the RFC and with his estranged business partner, millionaire US Senator James Couzens. After days of haggling, Ford agreed to provide $8.25 million in new capital for a merged Guardian-Detroit Bankers. Banners appeared on the streets of Detroit attempting to build confidence in the proposed merger with the slogan "Bank with Hank."

But this Ford loan was contingent on an RFC loan, and the RFC now refused to make their loan because Wall Street banks had refused to renew their oustanding loans to a component of the Detroit Bankers group. So this entire scheme fell apart around February 28, 1933. Starting on March 1, Senator Couzens tried to get Michigan bankers to propose a plan under which the state's banks might re-open. But the bankers were unable to agree on any plan before the state legislature in Lansing had adjourned. Therefore the Michigan banks stayed closed through the end of Herbert Hoover's term in office.

Now the hammer-blows of panic fell thick and fast on the reeling US banks. The RFC was forced by a meddling and impotent Congress to publish the names of the banks that had received RFC loans, most of which were quickly submerged by panic runs once their identities were known to the public.

The Wall Street banks and especially their stock dealings were during this period subjected to an investigation by the Senate

Banking and Currency Committee, chaired by Senator Peter Norbeck, with Sen. Frederick Walcott as ranking Republican. This probe was a political move requested by President Hoover to show that the Wall Street crowd, and not the President, was responsible for the 1929 crash and was now obstructing necessary reforms. Hoover also thought that, unless Congress launched an investigation, bear raids might be launched on the stock exchange by pro-Democratic financiers to get Hoover out of office.

This committee came to be known as the Pecora committee because of the prominent role played by Ferdinand Pecora, a former New York City assistant district attorney in Manhattan, who became the counsel for the committee. Very damaging to bankers in general was the testimony of Charles E. Mitchell, chairman of the board of National City Bank, the ancestor of today's Citibank. Mitchell's testimony documented a series of unscrupulous stockjobbing practices carried out at the expense of a gullible public. The testimony also suggested that the greedy Mitchell was guilty of federal tax evasion, although he was later acquitted in his criminal trial - but convicted in a 1938 civil suit and forced to pay about $1.4 million in back taxes and interest. As one observer put it, these hearings marked the eclipse of the financier as a folk hero in American life. Confidence in the banking system and its managers had received another crushing blow.

Bankers began flailing in desperation. In New Jersey, Maryland, New York, and the District of Columbia, they reduced the interest rates paid on savings account deposits. A number of states allowed banks to limit the amount of money that could be withdrawn from accounts. Even individual cities declared bank holidays to stave off further panic: this was the case in Huntington, Indiana, and Mt. Carmel, Illinois. In other states, some cities began allowing the local banks to issue scrip - paper certificates to be used in lieu of money during the crisis, or, more bluntly, funny money. Indiana declared a bank holiday on February 23; Maryland followed suit on February 25, followed by Arkansas on February 27, and Ohio on February 28.

The chaos in the hinterland increased the pressure on Chicago, and even more on the pre-eminent money center of New York City. Local bankers, strapped for cash, pulled half a billion dollars of their deposits out of New York, undermining the liquidity of the largest commercial banks and even of the flagship New York Federal Reserve Bank.

On March 1, Alabama and Louisiana imposed obligatory bank holidays, while Kentucky and West Virginia left it up to individual banks to decide whether they would open or not. Idaho empowered its governor to declare bank holidays, and Minnesota allowed the commissioner of banking of suspend banking for 15 days when he deemed it necessary. March 2 brought a new harvest of bank holidays across the west, with Arizona, California, Mississippi, Oklahoma, Oregon, and Nevada ordering their banks to close. In Baltimore and the rest of Maryland, the bank holiday was being extended day by day. In the District of Columbia and in several states savings banks began enforcing the rule that 60 days' advanced notice had to be given by depositors if they wanted to withdraw money.

It was also on March 2 that the Federal Reserve Board in Washington finally advised Hoover to declare a federal bank holiday. This advice was long overdue, but the Federal Reserve Board did not want to share responsibility for a bank holiday or for other measures that might still be considered drastic; they wanted Hoover to take the fall for them. Now their own system was breaking apart, and they had to strong-arm the Chicago Fed to make a loan to the hard-pressed New York branch. The Fed Board now suggested a bank holiday covering March 3-6, 1933. Their assumption was that emergency enabling legislation ratfying the closure would be in place before March 7.

On March 3, 1933 - Hoover's last full day in office - state governors in Georgia, New Mexico, Utah, and Wisconsin declared bank holidays. North Carolina, Virginia, and Wyoming limited withdrawals. By the end of the day 5.504 banks with deposits of $3.4 billion had shut down.

Attention was now concentrated on the battered banks of New York and Chicago, which had kept serving customers until the close of the business day on Friday, March 3. It was now clear that the last currency and gold reserves of these two money centers would inevitably be cleaned out during the Saturday morning banking hours of March 4, Inauguration Day. At 11:30 PM Hoover called Roosevelt and repeated his demand that the President-elect act together with him and endorse the actions they might agree to take. Roosevelt repeated his refusal of such an approach. Hoover went to bed at midnight. At 1 AM a courier arrived at the White House from the Federal Reserve Board with the draft of an executive order for a nation-wide banking holiday, and a formal letter urging Hoover to take this step at once. But Hoover slept.

During the early hours of Saturday, March 4, Governor Herbert Lehman of New York, himself a Wall Street investment banker, met with representatives of the banking establishment at his Manhattan apartment. Present were the New Yor State superintendent of banks, executives from the Morgan group and from the other big clearinghouse banks, and George Harrison, boss of the New York Federal Reserve Bank. Harrison had been in touch with Hoover during the day to request a nationwide holiday, but Hoover had replied by shifting the responsibility to Gov. Lehman. Lehman wanted a formal request for bank closure from the clearinghouse banks, but these bankers stalled, hoping to escape responsibility. Lehman refused to act until the big banks had signed a petition asking for the bank holiday. With this request in hand, Gov. Lehman at 2:30 AM signed an order suspending banking in New York State through Monday, March 6.

The Chicago bankers had undergone large withdrawals on March 3. They were hoping that Illinois Governor Horner would act alone to impose a bank holiday. But when news of Lehman's action arrived, the Chicago bankers joined in asking Gov. Horner for a bank holiday. Horner signed the bank closure order at 3:22 AM local time. Herbert Hoover still had more than seven hours left in his term in office, but the financial heart of the United States, the credit system, had stopped beating. If Hoover's policies had been continued under his successor, the very fabric of civilization would have torn to pieces in this country within a matter of weeks.

It is instructive today to recall which institutions and economic groups had tried and failed to deal with the banking panic of 1932- 33:

* The private sector failed in a spectacular way to stop the banks from closing and to re-open them after they were shut down by individual bankruptcy or by the state bank holidays. Bankers were unable to form consortia to help their brethren banks. They were unable to provide credit for the recovery of agricultural and industrial production. They were impotent both as ad hoc groups of private bankers, and also when they acted undet the aegis of a government-initiated, private corporation like the National Credit Corporation. The Michigan crisis proved to be the epiphany of the private sector's failure: here men with names like Ford, Chrysler, and Sloan were unable to save the banks they themselves controlled and relied on. In short, there was no private sector, free-market solution to the disintegration of 1931-33.

* The Federal Reserve System was first of all one of the principal guilty parties in the Coolidge-Hoover speculative bubble, and in the Crash of 1929. Under the leadership of Benjamin Strong (himself subjected to the hypnotic powers of Lord Montagu Norman), the Federal Reserve System provided the cheap credit which stoked the fiery furnaces of speculation. The Fed did nothing to restrain speculation, but only covered its own posteriors somewhat with a mild obiter dictum in the spring of 1929 -- of which some observers were reminded when Alan Greenspan issued his "irrational exuberance" comment of December, 1996. The Fed virtually disowned all banks that were not members of its own system, and was unable to do anything to help the larger banks that were members. The Fed refused to recommend that Hoover declare a nationwide bank holiday until March 2 -very late in the day. The Fed attempted at every turn to duck its responsibilities, trying to shunt them off on the flailing Hoover - as in the Fed's 1932 refusal to declare a state of emergency to permit Fed loans to nonbank institutions. Under Eugene Meyer, the father of Katherine Meyer Graham of today's Washington Post, the Federal Reserve System displayed an intertia that was the practical equivalent of sabotage. This abysmal record contrasts most vividly with the extravagant claims of pro-Fed lobbyists cited above: that the Fed would make panics and bank failures impossible, that depressions no longer need be feared, and so forth. Private central banking as exemplified by the Fed was an accomplice in both collapse and disintegration.

* The states were tragic in their impotence to save the banks. State governors were able to prevent bank insolvencies by shutting down all banks with a bank holiday. But no state was ever able permanently to re-open its banks.

* Congress acting by itself also failed. A lame duck Congress was in session for many weeks in January and February, 1933, and produced no measures capable of keeping the banks open nor of re- opening the ones that were shut. The law forcing RFC loan recipients into the public eye for panic runs was arson. Senator Borah said that he had never seen a Congress spend so much time on trivialities during a crisis. According to Senator Hiram Johnson: "We're milling around here utterly unable to accomplish anything of real consequence." [Leuchtenburg, 27-28] This inaction generated a widespread public disgust with the legislative branch that was almost as great as the popular hatred of Hoover. Fascist ideologues seized on the failure of the Congress to argue for dictatorship.

* Federal agencies were unable to do save the banks and fight the depression by themselves. This included the Reconstruction Finance Corporation, which had been specifically designed to do so. The RFC's piecemeal efforts temporarily staved off the demise of a bank here and there, but in the end it proved unable to hold off panic. The RFC's failure in Michigan, refusing to act unless Henry Ford made pledges of loans and deposits, was abysmal.

* The Hoover cabinet was unable to stop the crisis. The overall tone was set by Secretary of the Treasury Andrew Mellon, who wanted to liquidate stocks, bonds, and everything in sight. Mellon was no better in his capacity as a leading banker. In September 1931 President Hoover had turned to Mellon and asked him to contribute $1 million to an effort to bail out the Bank of Pittsburgh. Mellon had rejected President Hoover's request. Mellon's successor Ogden Mills and especially Undersecretary Arthur Ballantine provided plans for Roosevelt which stopped the disinegration but failed to roll back the depression, which went on until 1940.

* President Herbert Hoover was the most obvious failure of all. This was due to Hoover's narrow construction of the powers and responsibilities of the presidency, and his refusal to use the implied emergency powers of the office. Hoover first tried voluntary corporatism among bankers. When this failed, he mustered the feeble activism of the RFC. After his election defeat, Hoover refused to take any action that had not been approved in advance by Roosevelt. Roosevelt neither refused nor agreed, but did nothing until he had taken office, when he acted quickly with a nationwide bank holiday and other measures.

In sum, the only institution able to combat the banking panic and the disintegration effectively proved to be the activist presidency of Roosevelt. A detailed analysis of Roosevelt's actions lies beyond the scope of this paper. But what this present study has revealed is already enough to refute as absurd the various theories of states' rights and of Congressional primacy that have circulated during the first two years of the Newt Gingrich Speakership. When the new crisis comes, it will take an activist president to deal with it.

STATUS OF US BANKING BY STATE, MARCH 4, 1933

ALABAMA - CLOSED INDEFINITELY

ARIZONA - CLOSED UNTIL MARCH 13

ARKANSAS - CLOSED UNTIL MARCH 7

CALIFORNIA - MOST CLOSED UNTIL MARCH 9

COLORADO - CLOSED UNTIL MARCH 8

CONNECTICUT - CLOSED UNTIL MARCH 7

DELAWARE - CLOSED INDEFINITELY

DISTRICT OF COLUMBIA - 3 BANKS LIMIT WITHDRAWALS TO 5%; 9 SAVINGS BANKS INVOKE 60 DAYS' NOTICE

FLORIDA - WITHDRAWALS RESTRICTED TO 5% PLUS $10 UNTIL MARCH 8

GEORGIA - CLOSED ON BANKS' OPTION UNTIL MARCH 7

IDAHO - CLOSED ON BANKS' OPTION UNTIL MARCH 18

ILLINOIS - CLOSED UNTIL MARCH 8, THEN 5% LIMIT FOR 7 DAYS

INDIANA - HALF RESTRICTED TO 5% WITHDRAWALS INDEFINITELY

IOWA - CLOSED 'TEMPORARILY'

KANSAS - 5% WITHDRAWALS INDEFINITELY

KENTUCKY - MOST ON 5% WITHDRAWALS UNTIL MARCH 11

LOUISIANA - MANDATORY CLOSING UNTIL MARCH 7

MAINE - CLOSED UNTIL MARCH 7

MARYLAND - CLOSED UNTIL MARCH 6

MASSACHUSETTS - CLOSED UNTIL MARCH 7

MICHIGAN - CLOSED INDEFINITELY

MINNESOTA - CLOSED 'TEMPORARILY'

MISSISSIPPI - 5% WITHDRAWALS INDEFINITELY

MISSOURI - CLOSED UNTIL MARCH 7

MONTANA - CLOSED INDEFINITELY

NEBRASKA - CLOSED UNTIL MARCH 8

NEVADA - CLOSED UNTIL MARCH 8

NEW HAMPSHIRE - CLOSED INDEFINITELY

NEW JERSEY - CLOSED UNTIL MARCH 7

NEW MEXICO - MOST CLOSED UNTIL MARCH 8

NEW YORK - CLOSED UNTIL MARCH 7

NORTH CAROLINA - SOME ON 5% WITHDRAWALS

NORTH DAKOTA - CLOSED 'TEMPORARILY'

OHIO - MOST ON 5% WITHDRAWALS INDEFINITELY

OKLAHOMA - CLOSED UNTIL MARCH 8

OREGON - CLOSED UNTIL MARCH 7

PENNSYLVANIA - CLOSED UNTIL MARCH 7 (EXCEPT FOR PITTSBURGH MELLON BANKS)

RHODE ISLAND - CLOSED MARCH 4

SOUTH CAROLINA - SOME CLOSED, SOME RESTRICTED ON BANKS' OWN OPTION

TENNESSEE - SOME CLOSED, SOME RESTRICTED UNTIL MARCH 9

TEXAS - MOST CLOSED; SOME RESTRICTED TO $10 PER DAY UNTIL MARCH 8

UTAH - MOST CLOSED UNTIL MARCH 8

VERMONT - CLOSED UNTIL MARCH 7

VIRGINIA - CLOSED UNTIL MARCH 8

WASHINGTON - SOME CLOSED UNTIL MARCH 7

WEST VIRGINIA - 5% MONTHLY WITHDRAWALS INDEFINITELY

WISCONSIN - CLOSED UNTIL MARCH 17

WYOMING - 5% WITHDRAWLS INDEFINITELY

[see Kennedy, pp. 155-156] **---------------------------------- ------------------------------**

LORD NORMAN

If Herbert Hoover was hated in the United States, the Mephistophelean Lord Montagu Norman was hated all over Europe and all over the world with even better reason. Something of the feelings of the normal working bloke of the Clyde or the Midlands comes through in this summation by a British academic, made a quarter century ago: "[Norman's] career must surely rank as one of the most complete failures in public life in this century. His often-stated aim was to make London a successful, leading and powerful financial centre; to keep the pound sterling strong and stable; and to maintain the independence of the Bank, if possible in a leading role in an association with other similarly constituted central banks." [Sidney Pollard, p. 19]

But this partakes too much of the superficiality of the man in the street. If we compare Norman's achievements to his real goals in economic and financial warfare against the United States, France, and the rest of the world, Norman was highly successful. The British Establishment and the finance oligarchy of the City of London left no doubt that they were well pleased with Norman.

Norman was Governor of the Bank of England from 1920 until 1944. His was the longest term for a Bank of England boss during the twentieth century. Notice that more than half of Norman's tenure at the Bank of England came AFTER the British default of September, 1931. It was in fact in 1931 that Norman was rewarded with his reappointment as Governor of the Bank of England without time limit. In practice, Norman might have stayed on as Governor for life. After 1939, according to various accounts, the British oligarchy considered Norman's services even more indispensable in wartime because of his matchless expertise in economic and financial warfare. As it turned out, Norman retired from the Bank of England only in 1944 and only on medical advice after he had injured himself in a fall.

But there was no doubt at all of the oligarchy's glowing approval of Norman. His highest honor came when he was inducted into the House of Lords as the first Baron of St. Clere in 1944. The hereditary peerage for Norman was an accolade bestowed for his service in orchestrating the Crash of 1929 and the 1931 Disintegration of the world financial system. Montagu Norman lived to see the dawn of the Bretton Woods era. Norman's stepson is Peregrine Worthshorne, the stridently fascist and anti-American columnist of Conrad Black's Hollinger Corporation paper, the London Sunday Telegraph. After Lord Norman's death, his marble bust was unveiled in one of the courtyards of the fortress on Threadneedle Street. So Norman's genocidal plotting was never disowned, only glorified, by those who counted most in Perfide Albion.

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