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The Rise and Fall of the International Gold Standard

Reviewing Ellen Brown's "Web of Debt:" Part III

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This is the third in a series of articles on Ellen Brown's superb 2007 book titled "Web of Debt," now updated in a December 2008 third edition. It tells "the shocking truth about our money system, (how it) trapped us in debt, and how we can break free." This article focuses on global debt entrapment.

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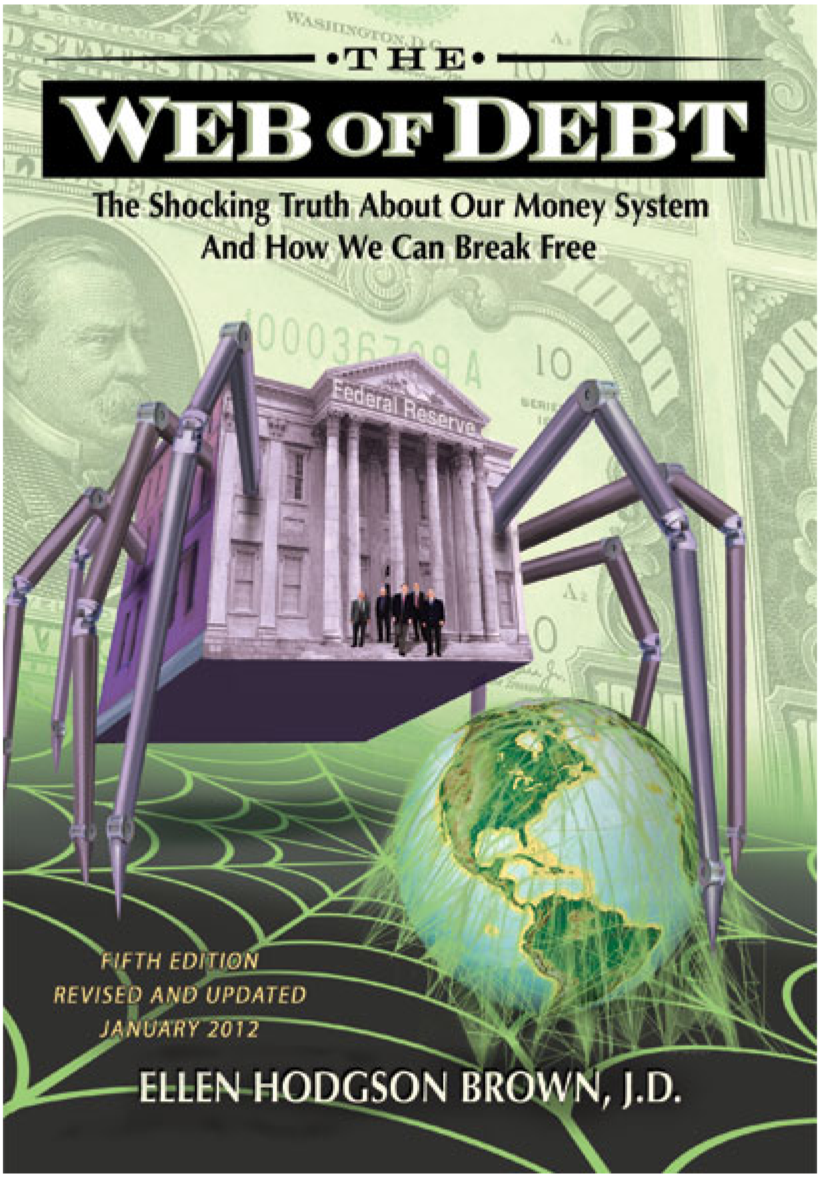

www.webofdebt.com and www.ellenbrown.com .

Global Debt Enslavement – From Gold Reserves to Petrodollars

"The gold standard (while it lasted) was a necessary step in giving bankers' 'fractional reserve' legitimacy, but the ruse could not be sustained indefinitely" because exiting gold to defray foreign debts results in money backing it to be withdrawn from circulation. The result – contraction, recession, or depression, the very problem that forced FDR to drop the gold standard to prevent an even greater collapse. In 1971, Nixon did it permanently "when foreign creditors threatened to exhaust US gold reserves by cashing in their paper dollars for gold."

John Kennedy was the last president to challenge Wall Street, contends Donald Gibson in one of his two books about him. In "Battling Wall Street: The Kennedy Presidency," he said that Kennedy opposed "free trade," believed industry should serve the nation, and that America should sustain its independence by developing cheap energy. That "pitted him against the oil/banking cartel," intent on "raising oil prices to prohibitive levels in order to" entrap the world in a "web of debt."

Evidence also suggests that "Kennedy crossed the bankers by seeking to revive a silver-backed currency," independent of the Fed. In fact, on June 4, 1963, he issued Executive Order (EO) 11110 giving the president authority to issue currency. He then ordered the Treasury to print over $4 billion of "United States Notes" in place of Federal Reserve Notes. Some believe that he intended to replace them all when enough of the new currency was in circulation – to return money-creation power to the government where it belongs.

Five and a half months later, he was assassinated. In his second book on the president, "The Kennedy Assassination Cover-up," Gibson contends that a private network of wealthy individuals did it – not the FBI, CIA, Mafia, LBJ, the oil cartel, or anti-Castro extremists. Whatever the truth, bankers regained their power in short order when Johnson rescinded Kennedy's EO and fully restored their money-creation authority. They've had it ever since.

Bretton Woods – The Rise and Fall of the International Gold Standard

In mid-1944, the Bretton Woods monetary management system was established, about a year before WW II ended but when its outcome was clear. It created a postwar international monetary system of convertible currencies, fixed exchange rates, free trade, the US dollar as the world's reserve currency linked to gold, and those of other nations fixed to the dollar. It also designed an institutional framework for market-based capital accumulation to ensure that newly liberated colonies would pursue capitalist economic development beneficial to the victorious powers, most of all America.

In August 1971, the system unraveled when Nixon closed the gold window – ending the last link between gold, the dollar, and sound money. Thereafter, currencies would float and compete with each other in a casino-like environment, easily manipulated by powerful insiders, hedge funds, giant international banks, or governments at times in their own self-interest.

According to F. William Engdahl: "Market forces now could determine the dollar (entirely without gold). And they did it with a vengeance."

Bretton Woods was to ensure stability along with the IMF and World Bank's original missions – to establish exchange rates for the former and provide credit to war-torn Third World countries for the latter. Both bodies are, in fact, hugely exploitative while David Rockefeller ostensibly convened Bretton Woods to ensure gold-backed currencies would "justify a massive expansion of US dollar debt around the world."

The scheme worked until Vietnam war debt unraveled it. It might have continued (for a while at least) by raising the gold price. Instead it was kept at $35 an ounce forcing Nixon to close the gold window permanently, then take "the brakes off the printing presses" to generate as many dollars as there were willing takers. After that, Wall Street financiers "proceeded to build a worldwide financial empire based on a 'fractional reserve' banking system (using) bank-created paper dollars in place of the time-honored gold. Dollars became the reserve currency for a global net of debt to an international banking cartel."

Skeptics said they planned it that way to pull off "the biggest act of bad faith in history." True or not, gold failed as a global reserve currency because there isn't enough of it to go around. Inevitably shortages result forcing something to change.

Flawed as it is, however, "floating" exchange rates are much worse, especially for developing nations at the mercy of giants, like America, able to devalue currencies by attacking them through short selling. Manipulative power is so great, it can extract painful concessions that are hugely profitable to bankers.

Earlier in the 1930s, floating exchange rates proved disastrous, yet most countries agreed to them post-1971. Ones that resist are very vulnerable and can be coerced as a condition of debt relief, much like what happened after oil quadrupled in price in 1974. Suspicions about it at the time were justified.

It was a Kissinger – Saudi royal family scheme to revive dollar dominance by recycling petrodollars into US investments and weapons in return for guaranteeing the kingdom's safety – mainly from America had they turned us down. In a word, it was protection money like the underworld extracts on a smaller scale with oil now backing dollars instead of gold. Henceforth, countries need dollars to buy it and require exports for enough of them.

As for oil producers, Wall Street and London bankers profited from windfall petrodollar deposits – recyclable as developing nation loans to buy oil but at the same time to be entrapped in permanent debt bondage. Pre-1973, Third World debt "was manageable and contained....financed mainly through public agencies (for projects) promising solid economic success." That changed when commercial banks took over. Their business isn't development. It's "loan brokering (or) loan sharking," preferably with dictator/strongmen able to cut deals on their own.

Later the IMF got involved. At the behest of giant bankers, as "debt policemen" instituting rigorous structural adjustments, including slashed wages and social benefits as well as state asset sales on favorable terms to private investors.

At the same time, America got deeply indebted. It's now the world's largest by far and needs hundreds of billions annually to keep the dollar recycling game going – in the last 12 months alone, far more than that after the national debt doubled. Today, the nation is "hopelessly mired in debt to support the banking system of a private international cartel." Ordinary people pay the price.

Germany Finances a War without Money

The 1919 Versailles Treaty imposed onerous post-WW I terms on Germany. In May 1921, it got a six-day ultimatum to accept them or have the industrial Ruhr Valley militarily occupied. Even worse, it lost its colonies, all their resources, and the population had to pay the cost of war, amounting to three times the value of all property in the country. At the same time, German mark speculation caused it to plummet causing hyperinflation that by 1923 was catastrophic.

In January, the mark dropped to 18,000 to the dollar. By July, it was 353,000, by August 4,620,000, and by November an astonishing 4,200,000,000,000 – effectively worthless from the greatest ever hyperinflation, ravaging the nation's savings and making later calamitous events inevitable.

Loss of German assets compounded the problem. Britain took its colonies along with Alsace-Lorraine and Silesia with its rich mineral and agricultural resources. Lost was 75% of the country's iron ore, 68% of zinc ore, 26% of coal as well as Alsatian textile industries and potash mines. In addition, Germany's entire merchant fleets were taken, a portion of its transport and fishing fleet plus locomotives, railroad cars and trucks – all justified as legitimate war debts that were fixed at an impossible to pay 132 billion gold marks at 6% interest.

The 1923 Dawes Plan (named for US banker Charles Dawes) imposed fiscal control to continue the looting and assure reparations were paid. A huge debt pyramid resulted that collapsed after the 1929 crash along with radical political elements gaining prominence.

How to cope was the key question. Like the earlier American Greenbackers, Germany issued its own money after Hitler came to power. He had two choices, and like Lincoln, did it right. He freed the country from debt bondage and at the same time implemented vast infrastructure development – what Roosevelt as well did, but in his case by indebtedness to bankers.

Hitler issued $1 billion interest-free, "non-inflationary bills of exchange, called Labor Treasury Certificates." He put millions back to work, paid them with the Certificates that were used for goods and services to create more jobs and revive prosperity. Within two years, Germany was "back on its feet....with a solid, stable currency, no debt, and no inflation, at a time" America and Western economies were still struggling.

Hitler, however, diverged from the Greenbackers by equating bankers with Jews and launching a reign of terror against them. Greenbackers knew the real enemy – private bankers imposing debt bondage with onerous terms.

Beyond that and his imperial aims, Hitler reinvigorated the Third Reich in a few years, became hugely popular, and achieved it even before undertaking large-scale military spending. It impressed Pastor Sheldon Emry to write:

"Germany issued debt-free and interest-free money from 1935 and on, accounting for its startling rise from the depression to a world power in 5 years. Germany financed its entire government and war operation from 1935 to 1945 without gold and without debt, and it took the whole Capitalist and Communist world" to bring him down and restore the power of bankers.

Had Germany created debt and interest-free money post-Versailles, it could have escaped its disastrous inflation, later ravages, and rise of a tyrant like Hitler. In the 1920s, the privately-owned Reichsbank, not the government, caused havoc by flooding the economy with money compounded by foreign investor speculators shorting the mark and betting on its decline – because the Reichsbank printed massive currency amounts to be loaned "at a profitable interest to the bank. When (it couldn't keep up with demand), other private banks were allowed to create marks out of nothing and lend them at interest as well."

According to Hitler's Reichsbank president, Hjalmar Schacht, the government regulated the Bank, ended speculation by eliminating "easy access to loans of bank-created money," and solved the previous decade's hyperinflation problem as a result.

Reexamining the Inflation Humbug

Old theories die hard. It's not money creation that causes inflation. It's because merchants have to raise prices to cover costs, the result of "a radical (currency) devaluation" stemming usually from it being manipulated by its floating exchange rate.

Case in point – post-Soviet Russia's ruble collapse. It had nothing to do with rampant money creation. As F. William Engdahl explained in his Century of War:

"In 1992, the IMF demanded a free float of the Russian ruble as part of its 'market-oriented' reform. The ruble float led within a year to (a 9900%) increase in consumer prices, and a collapse in real wages of 84 percent. For the first time since 1917, at least during peacetime, the majority of Russians were plunged into existential poverty."

American-imposed "shock therapy" was the economic equivalent of military conquest, and most Russians have paid dearly to this day. With the IMF in charge, the nation and its former republics were weakened and made dependent "on Western capital and dollar inflows for their survival." A tiny elite got "fabulously rich" while most Russians experienced deep poverty and despair.

In 1993 – 1994, it was even worse for Yugoslavia and Ukraine, by some estimates an even greater hyperinflation than in Weimar Germany. Again the textbook explanation was rubbish.

Yugoslavia collapsed because the IMF "prevented the government from obtaining the credit it needed from its own central bank." Unable to create money and issue credit, social programs couldn't be financed or the provinces kept in place as one country.

Yugoslavia's problem was its success under a mixed free-market socialist model that threatened Western capitalism once the Soviet Union disbanded. It was feared that other former republics would emulate it, free from IMF shock therapy. As a result, the country had to be dismembered and its model destroyed, especially because of its strategic location – its "critical path" to potential Central Asian oil and gas.

In the 1980s, its imports exceeded exports, and it borrowed huge foreign sums for unprofitable factories. With too few dollars for repayment, IMF debt relief was requested under its usual terms. The result was 20% unemployment after 1100 companies went bankrupt. Worse still, inflation rose dramatically to over 150% in 1991. With still too little money to retain the provinces, "economic chaos followed causing each (one) to fight for its own survival" lasting a decade and causing tens of thousands of deaths and destruction.

Washington-imposed policies made it worse – a total embargo causing hyperinflation and 70% unemployment while blaming it on Milosevic. Ukraine met the same fate the result of IMF diktats. The currency collapsed, inflation soared, and state industries unable to get credit went bankrupt – as planned.

It's an ugly scheme to let Western predators buy assets on the cheap. Once Europe's breadbasket, Ukraine was reduced to begging the US for food aid, which then dumped its excess grain on the country, further exacerbating its self-sufficiency. Predatory capitalism is ruthless. This is how it works with bankers in the lead role.

Argentina is another example – "swallowed (by) the same debt monster" as the others. In the late 1980s, inflation rose 5000 percent, but money creation had nothing to do with it.

Post-WW II, the country was troubled by inflation, but it wasn't critical until after Juan Peron's 1974 death. Over the next eight years, it increased seven-fold to 206 percent – not by printing pesos but by radically devaluing the currency combined with a 175 percent rise in oil prices. One source said it was done intentionally to benefit exporters, speculators, and capitalists to prove free-market policies work best.

Nonetheless, high inflation and speculation became "hallmark(s) of Argentine financial life," the result of disastrous government policies. Even worse was that Argentina was "targeted by international lenders for massive petrodollar loans." When interest rates rocketed in the 1980s, repayment became impossible, and obtaining concessions came at the expense of IMF demands.

In the 1990s, they were implemented. The peso was pegged to the dollar. Currency devaluations ceased. The country lost its international competitiveness. The "money supply was fixed, limited and inflexible," and as a result national bankruptcies occurred in 1995 and again in 2001, but government reaction wasn't as expected. Argentina defied its creditors, defaulted on its debt, and began its road to recovery – with no foreign help or intervention. Post-2001, the economy grew by 8% for two successive years. Exports increased. The currency stabilized. Investors returned. The IMF was paid off, and unemployment eased.

Numerous other examples are similar. Professor Henry CK Liu calls foreign capital a "financial narcotic that would make the (19th century) Opium War(s) look like a minor scrimmage." In the late 1990s, Asian Tiger economies got a taste.

America's Economic War on Asia

Today's Japan evolved out of its feudal past once a modern central government was formed. Its 20th century economic model "has been called 'a state-guided market system.' The (government) determines the priorities and commissions the work, then hires private enterprise to carry it out."

America's military-industrial complex resembles it, but differs in one major respect. Post-WW II, Japan developed its economy without war. America practically worships it to the detriment of everyone at home and abroad.

At the end of the 1980s, "Japan was regarded as the leading economic and banking power in the world," and thus a challenge to US supremacy as the country that could say no. Its model was so successful that Asian "Tiger" economies copied it – in South Korea, Malaysia, Taiwan, Thailand, and elsewhere. Washington determined to undercut them as early as the

1985 James Baker-engineered Plaza accord and Baker-Miyazawa agreement.

He got Toyko to exercise monetary and fiscal measures to expand domestic demand and reduce Japan's trade surplus. At the same time, the Bank of Japan cut interest rates to 2.5% in 1987 and held that level until May, 1989. The idea was for lower rates to stimulate US goods purchases, but instead, cheap money went into Japanese stocks and real estate fueling two colossal bubbles.

The yen was also affected. Within months, it shot up 40% against the dollar, and overnight Japan became the world's largest banking center. At its twin bubble peaks, Tokyo real estate (in dollars) exceeded all of America's and its stock market represented 42% of world valuations – but not for long.

In 1990, Japan proposed financing former Soviet republics on its model and drew strong US opposition for two reasons. It might exclude US companies, and it would rely on the successful model that fueled Japanese and Asian Tiger growth. It had to be stopped and was.

Pressure was applied with threats of drastic US troop cuts that might endanger Japan's security. The scheme was drop your economic plans or defend yourself. At the same time, the country's twin bubbles imploded, and within months its Nikkei index lost $5 trillion in value, the result of predatory Wall Street short selling intervention. It left Japan severely hurt and no longer a challenge to America.

Confronting Asia's Tiger economies came next. In a Century of War, F. William Engdahl explained:

These economies "were a major embarrassment to the IMF and free-market model. Their very success in blending private enterprise with a strong state economic role" threatened IMF exploitation. "So long as the Tigers appeared to succeed with a model based on a strong state role, the former communist states and others could argue against taking the extreme IMF course. In east Asia during the 1980s, economic growth rates of 7 – 8 per cent per year, rising social security, universal education and a high worker productivity (free from debt) were all backed by state guidance and planning under market-based rules."

In 1993, Washington demanded changes – deregulate, open financial markets, and allow free foreign capital flows. Easing followed along with trouble. From 1994 – 1997, hot money flooded in and created speculative real estate, stock, and other asset bubbles ripe for imploding.

Hedge fund predators like George Soros took full advantage, attacking the weakest regional economy and its currency – Thailand and its baht. The aim: forced devaluation, and it worked. Thailand floated its currency and needed first-time ever IMF help.

Next came the Philippines, Indonesia, and South Korea with much the same result and fallout. Prosperous Asian Tigers were forced into IMF debt bondage as their populations sank into economic chaos and mass poverty, the result of a liquidity crisis severe enough to plunge the region into depression. Within months, over $100 billion shifted to private hands, and within a year $600 billion in stock market valuations were lost.

East Asia was effectively looted. Real earnings plummeted. Unemployment soared with the International Labor Organization estimating around 24 million lost jobs along with the region's remarkable miracle – its prosperous middle class. People literally were thrown overboard – small farmers and business owners, unions, and millions of ordinary people made human wreckage, the result of Wall Street-designed predation, the same scheme wrecking havoc today on a global scale.

China Awakens and Prospers

Under Deng Xiaoping, China changed from a centrally-planned economy to its own market-based model under government-owned banks able to issue credit for domestic development. Until the global economic crisis emerged, it grew impressively at double-digit rates.

Key is its banking system, its government-issued currency, and a system of state-owned banks. Henry CK Liu distinguishes between "national" and "central" banks – the former serves the national and public interest; the latter, private international finance at the expense of the nation and people.

In 1995, China's Central Bank Law gave the People's Bank of China (PBoC) central bank status, but more in name than form in that it still follows government policies by directing money for internal development, not bank profits. In addition, China is debt free and thus unemcumbered by IMF mandates and predatory banking cartel interests. It also protected its currency by refusing to let it float (beyond a minor adjustment) and be vulnerable to speculative predators.

The proof is in the results. China's independent monetary policy works, much like colonial America, government under Lincoln, and Nazi Germany under Hitler. They printed their own money, debt free, and prospered – impossible under today's American model of indebtedness to predatory bankers.

Even worse are New World Order and WTO rules for a global government run by powerful international bankers and corporations – "oppressing the public through military means and restricting individual freedoms." Financial terrorism as well by shifting wealth hugely to the top at the expense of beneficial social change to be abandoned.

A follow-up article focuses on America captured in a "web of debt."

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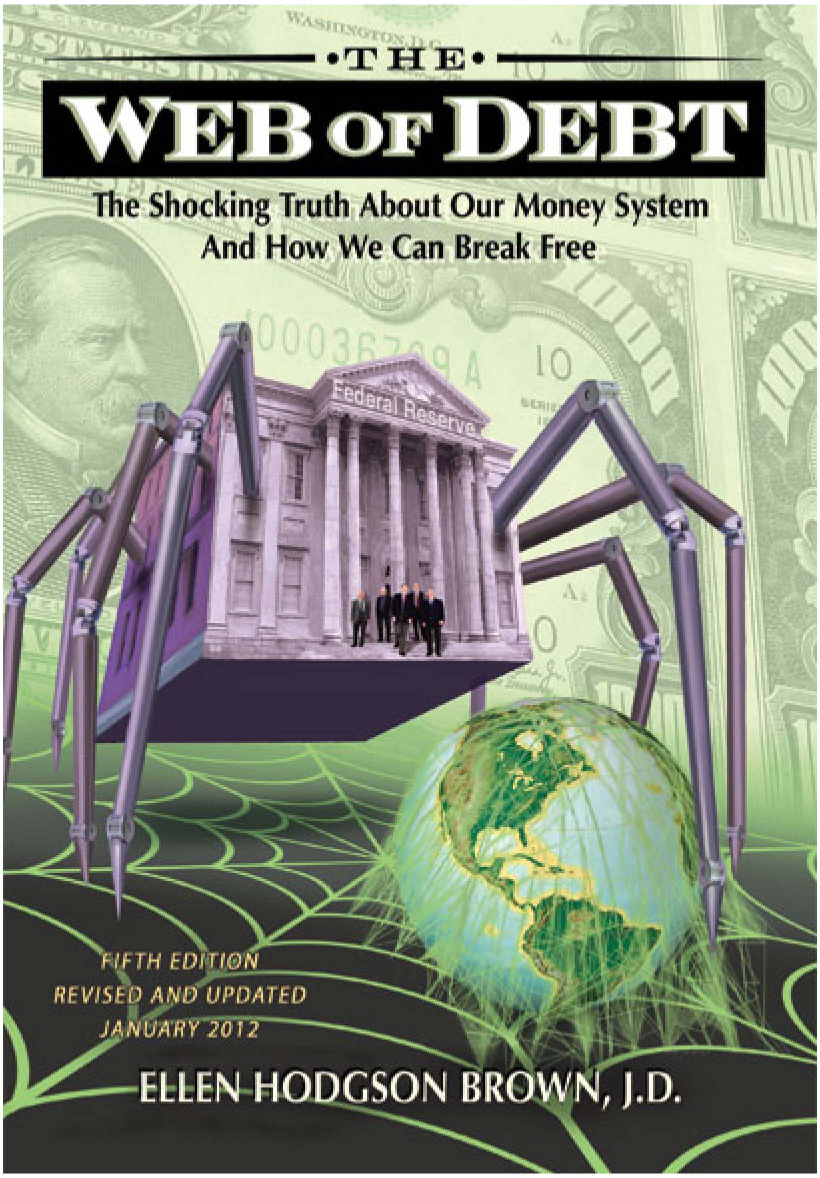

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