IMF, WORLD BANK & IFF…etc

From Fisher and the Wall Street Crash to Milton Friedman., the Chicago school and the Austrian school

Although Bretton Woods is famous for Keynes and Dexter, a figure known to both was Professor Irving Fisher.A economist and genius, these qualifications counted for nothing when he lost everything in the Wall street crash.To rectify economic thinking he produced a book "100 % money", and a temporary circulation of money (in the depression) called the Stamp Scrip.(to get people working, useful even today in the third world, produced without interest attached)

This has led to a long debate from the 1930's, but even from Adam Smith in the 1700s and before (some would say since the dawn of history in less sophisticated systems), of the Currency school (100% reserve and auguments concerning excessive credit over paper issued) versus the banking school (free market economics), or 100 % Reserve Banking versus Fractional Reserve

There is broad agreement among Austrian-oriented writers that a banking system with
(1) Central direction and (A Central bank) (2) Fractional Reserve system (i.e. no reserves) is not conducive to economic stability, the Austrian school are free marketers.

However, there is some disagreement among the Austrians as to which of the two mentioned characteristics is fundamentally responsible for the problem in banking (instability and inflation, etc) Keynes argued for a central bank with a fractional reserve system, and this is what Freidman is proposing except the Government Issue the currency with a currency commission to watch over it. .

Whilst Fisher argued that (after the Wall Street crash) only a 100% reserve would suffice. Keynes was in favour of state intervention, and linked together are Keynes to Fisher and (later Milton Freidman)

Fisher believed that the "great overwhelming waves" of depression would instead become "little ripples", with 100 % money system. This is similar to Gordon Browns view to rid "boom and bust". Although Fisher was a Capitalist reformer (putting it mildly), the difference in ridding boom and bust "waves and ripples" is that Browns steady ship only exists at the expense excessive debt and at the expense of other underdeveloped countries bolstering the 1st world, whereas Fisher (as other activists, and anti globalisation protestors) see worldwide stability, which is not a feature of Capitalism as a right of everyone.

Inflating the currency into stock markets involves creating different class structures and extreme poverty at the bottom end.

Fisher

A further view concerned the (supposedly) "free" banking experiment in Scotland. The Free Banking School identified the root cause of recurring economic disturbances in the legal monopoly of the Bank of England over bank note issue. Consequently, it favoured subjecting the Bank of England to competition in bank note issue as the best means of checking credit fluctuations.

Going beyond the controversy of the Currency School versus the Banking School, **Professor White** focuses on the previously overlooked Free Banking School, which questioned the basic premises of the other two.

White’s use of a simplified bank balance sheet model showing, with twelve equations, the self-regulating nature of a free banking system. That is, the system spontaneously adjusts the supply to the demand for currency.

White

White points out that under free market conditions the bank reserve ratio may be well below 100 %. “Fractional reserves” existing naturally and may fall to surprisingly low ratios, after citing a Scottish bank in the 1830's that “held specie reserves averaging only 0.5 per cent of total demand liabilities,” White accurately concludes that “a bank note-issuing firm is presumably competent to choose a level of reserves prudent enough for its own private purposes.” In other words like the Bank of England you can still issue credit in note form (or today as electronic blips as credits and debits), but have many Bank of England’s, each competing against each other.

However and although the independent Scottish banks did compete against each other and issue currency their lender of last resort was still the bank of England.

Checkland

In fact the whole Union was simply based upon the amalgamation of the Bank of England formed in1695, and the Bank of Scotland formed in 1696, with the Union following in 1707.

The Union of Scotland and “England” was “inspired by the need to get English money to repair the losses Scotland had incurred in the Darien adventures of 1698-9, inspired by William Patterson who was himself inspired by the new emerging Whig party, which had its headquarters in Amsterdam prior to the

Glorious revolution which eventually placed the Hanoverians as figureheads to the Crown in counsel which had no Royalty in its ranks in order to rule.

Hobson

Causing a run on the banks in Scotland allowed the bank of England to buy Scotland on the cheap. The religious undertones by contrast over the sixteenth century saw Presbyterians siding with James the Catholic king and against him at different periods.

In fact in doing the opposite, by restricting money and credit, the Bank of England in 1818 caused prices to plummet and bankruptcies reached new heights in Glasgow and Aberdeen. The free banking period very convincingly described by White between 1800 and 1845, shows if anything that there were two simultaneous systems working within each other, part free banking and part central banking.

The bank of Scotland, the Royal bank and the British linen bank, all were the lenders of (nearly) last resort to the free banks, on which the free banks having as they admit very low capital adequacy ratio (as low as 0.5%),to turn to if a run on the banks arose. This was also true of the "independent Ulster banks, which also were underwritten by the bank of Ireland in Dublin also formed at the same time as the Bank of England. The Bank of England therefore was the bank to underwrite every bank in Ireland, Scotland and Britain, but with less involvement in the Scottish, and Ulster banks, but which nevertheless underwrote them all.

Fetter

These three chartered banks (The bank of Scotland, the Royal bank and the British linen bank) in Scotland in turn lent with almost no reserves against the Bank of England (as actual lender of last resort).The interbank loans between themselves also were crossed with loans from the Bank of England.

Checkland

White states that a “system of ‘each tub on its bottom’ ” (complete independence) cannot therefore call upon the government in time of need, and its notes must be exchangeable for gold, as it clearly did not apply these criteria to its own practice, it cannot be considered free banking.

White

If we imagine today credit cards around a central bank, both interlinked but with all (especially the credit cards) offering competing interest rates, then the free banking system was not really free at all. However if it had been it would surely have worked eventually, but under the Union it would never be allowed to be so. Perhaps when Scotland gains independence soon it will bank on its own again.

This goes to the centre of the problem or the debate between the fractional reserve school (having nothing to back up the promissory note, if the holder “on demand” asked for gold for example) known as central banking, and the 100% money school, which says if you lend out £10, you must have £10 in the bank, in notes or gold…or anything worth £10 !)

The free banking school of White above suggested a third way between these two ideas, but in reality it at best only achieves limited independence, having to rely (even secretly) on the Central bank.

The Chicago school advocate a Keynesian model of economics. The idea is that there are two sharply separated and independent worlds of economics. There is the “micro” sphere, the world of individual prices determined by the forces of supply and demand. Here, the Chicago school concede, the economy is best left to the unhampered play of the free market. They also maintain that there is a separate sphere of “macro” economics, economic aggregates and of government budget and monetary policy, where there is no possibility or even desirability of a free market.

In common with their Keynesian colleagues, the Friedmanites wish to give to the central government absolute control over these macro areas, in order to manipulate the economy for social ends, while maintaining that the micro world can still remain free. In short, Friedmanites as well as Keynesians concede the vital macro sphere to statism as the supposedly necessary framework for the micro-freedom of the free market.

In reality, the macro and micro spheres are integrated and intertwined, as the Austrians have shown

It was on July 1, 1944, three weeks after the allies had landed in Normandy that the most significant inter-governmental conference of the century began. The conference took place at Bretton Woods, New Hampshire, and it represented, in the main, the thinking of two individuals, Harry Dexter White and John Maynard Keynes. Two of the organizations formed at Bretton Woods have become increasingly more important in the world's economic affairs. These are the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (World Bank). The IMF was established “to promote international monetary cooperation” by maintaining fixed exchange rates among the currencies of different nations.

The World Bank has evoked considerable criticism over the years for its policy of lending primarily to governments instead of private, profit seeking organizations.

At Bretton Woods, nearly every weak currency nation sought to increase its “quota” so that it could “buy” more currencies of real value. The Fund's credit-dispensing ability was further expanded in 1970 with the creation of “Special Drawing Rights (SDRs)”. The SDR is the fulfilment of what John Maynard Keynes had envisioned in the early 1940s. Keynes proposed a world reserve currency called the “bancor”" which would free all governments from the disciplines of gold. Like the proposed bancor, the SDRs are designed to replace gold in world monetary transactions and to further free member governments to inflate their currencies.

Yet the idea of a world fund was first mooted by Cecil Rhodes in the 1890’s, as part of the world plan (ideology of space and power) to create a one world warless society, in which the Rhodes scholar fund and subsequent educational outreaches by Carneigie came together. (see chapter 1)This was furthered by Lord Keynes and Harry Dexter at Bretton Woods.

Governments the world over find it expedient to spend more than their citizens are willing to provide in tax revenues. The additional spending is often financed by increasing the quantity of money and credit, which results in rising domestic prices. Faced with rising prices at home, the country's citizens will tend to buy more goods and services from abroad, since they have become relatively cheaper. At the same time, exports from the inflating country will tend to become less attractive to foreign buyers because of their increased cost. The end result is a balance of payments deficit.

This deficit would tend to correct itself if exchange rates were left unmanipulated by the inflating country's central bank. The value of the inflated currency would tend to drop in relation to foreign currencies and this in turn would discourage imports and encourage exports. But what often happens is that the inflating country's central bank intervenes in foreign exchange markets to prevent the value of its currency from falling to (or closer to) its market level. It can do so, however, only as long as it has access to foreign currency reserves with which it can intervene to purchase its own currency.

Often when a country has depleted its reserves, the IMF enters and offers loans which enable the inflating government to continue its folly by providing it with the funds to (temporarily) negate some of the consequences of the inflation. The Fund concentrates on “macropolicies,” such as fiscal and monetary policies or exchange rates, the Fund has become the central player in “managing” the debt restructuring packages among debtor nations and their creditors this is its debt management role, in recent years the IMF's annual meeting has increasingly come to serve as a focal point for the major industrialized countries finance ministers and heads of central banks to meet and discuss economic coordination, now it is completely involved in this activity at every level.
The IMF is essentially Keynsian.

The Keynesian school control the new emerging integrated currencies, whilst on the surface it seems the World Bank operates by stimulating a free market below to national governments. The Austrian school would maintain that these activities are inexorably interlinked, and debating whether they are or not is a moot point since they now both exist. Keynes promoted perfect competition, as an ideal, but in reality as competition was dubbed imperfect by the Keynesian school, it became the opposite of the free market

competition.(i.e.the Keynes school needed state intervention to achieve perfect competition, as the free market would never achieve this.)
Fisher believed, again, that on the one hand there is a world of individual prices determined by supply and demand, but on the other hand there is an aggregate "price level" determined by the supply of money and its velocity of turnover, and they never meet. The aggregate, macro, sphere is supposed to be the fit subject of government planning and manipulation, again supposedly without affecting or interfering with the micro area of individual prices. For while the Austrians hold that the Chicago schools monetary expansion made a later 1929 crash inevitable, Fisher-Friedman believe that all the Federal reserve needed to do was to pump more money in to offset any recession.

There is now a New British fund is similar to the IMF, and also the World Bank, called the International finance facility, it lends to poor countries, without the need of them repaying, but requiring the donor nations to repay between 5% and 8%.(see chapter 6)

At Bretton Woods Keynes was rejected ?, in Favour of Harry Dexter white

The distinction between the Keynesian school and the free market school which many believed led Dexter White at Bretton woods (amidst the attending 144 nations) to reject Keynes, and the British view, in favour for the American free market model (favoured by the Austrian school).At this vital meeting economic conquest by America over Britain became *real politik,* but the Bretton Woods system, was an elaboration of the British-induced "gold exchange standard" of the 1920s. The gold standard did not prevent boom-bust cycles caused by inflation of money and bank credit but it at least Kept that inflation and those cycles in close check by persuading the banks that if a bearer of a paper note did enter the bank and demand its equivalent in Gold, the bank would not over issue its notes. However this did not work in theory and adds to the augment that if a bank can issue it will, central or government controlled. In other words paper money (monetary) is always expanded beyond the rate at which Gold can be found, and the argument is likewise never ending.

Boughton (IMF)

To summarise

Therefore the new "special relationship", is not one of Keynes bowing down to American conquest, and Dexter White rejecting Keynes taking instead the free market school, but rather one of American domestic policy taking the free market model (micro), whilst all nations above this would be regulated by the Keynesian school IMF. (macro).The World bank is essentially a Co-operative, and of course it does not just concentrate on the American domestic state, but also exports the American business model (fractional reserve system) when it "develops" other nations in need of it. To join the World Bank, you first have to join the IMF "its sister organisation", and the World Bank is one of the UN's specialised agencies.

IMF (The IMF, OAS and World Bank tour leaflet)

From 1944 Cuba refused to join, as did Russia.

Keynes wanted a bi-lateral US Britain world hegemony, whilst White favoured a multi-lateral hegemony (The UN's constitution was drawn up by President Roosevelt's wife)

Bush and the neo-cons favour a unilateral approach to world hegemony.

Dexter White was strongly influenced by Keynes, and was not opposed to a new international currency. He also admired the bancor idea of Keynes (sdr's), but if it was a choice between the bancor or the pound, he would choose the bancor.

Dexter White in 1944 at Bretton Woods took a monetary position, wanting more regulation for central banks, yet also flexible "fixed and flexible". Keynes wanted less regulation a more relaxed approach.

Dexter White thought that if he fixed Britain to the new Dollar as also an international standard, he would limit Britain's ability to influence American monetary policy, and like Fisher thought the currency more stable if it was linked to Gold (or in its place a 100% reserve.)

Boughton

The Wall Street crash had a profound effect on the way the world would be run from its two models, each supporting a macro or micro approach, which was in practice intertwined.

A difference between these two ideas is surely influenced by Fisher a Wall Street crash victim, who would have been very well known to Dexter White and Keynes.

A view which ironically led to a greater caution in banking (fractional reserve with regulation, which today has disappeared, not in name but in practice) Keynes did not lose out in the Wall Street crash, as Fisher had.

This is the special relationship, joined by banking, but with competition between each other, viewed by a pact of mutual mistrust, as distinct from not having a special relationship with mutual mistrust.)

These distinctions have merely served an internal debate on the best method for a banking system for a true *laissez faire* Capitalist society. A fractional reserve system promises to pay specie in amounts greater than actually exist, that promise is a fraud. Therefore, the 100 % school contend, a fractional reserve banking system has no place in a free society. The fractional reserve advocates, who disagree with the 100 % school, also base their arguments on free market principles. In a free market, they say, anyone can do what he wants as long as he doesn't use force against others. This includes banks. If a bank issues notes that aren't 100 per cent backed by specie, by what right do we stop them? They aren't forcing people to accept the notes.

Traditionally Banking had two distinct functions.

One to act as a storehouse for safekeeping.

Two to broker loans to whoever was in need.

Laws against fraud, however, would prevent this, as applied to this particular banking function. Even in today's market, banks are not allowed to break into private safe-deposit boxes and “borrow” their contents without the owners' consent. The 100 % school are correct that the same ought to be true in the ideal *laissez-faire* economy, and for this aspect of banking, the fractional reserves should be able to agree completely.

Clearly, stealing from safe deposit boxes is force.

Today the citizen has no real choice between the two functions. He has nowhere to put his money for safekeeping except into a loan-brokering operation at a bank. (He could put green cash into a safe deposit box, but the inflation engendered by the very system he's trying to avoid precludes this as a sensible option.)

As the fractional reservers point out, there's nothing wrong with loan-brokering. What's wrong is forcing people to deposit into a loan-brokering scheme by forbidding the alternative, while simultaneously falsely advertising the loan-broker outfit as a safe warehouse. That's what today's banking system does and both sides would agree that it's wrong.

For the State would then have in its complete power the issuance of as great a supply of money as it desired. Friedman's advice to restrict this power to an expansion of 3–4% per year ignores the crucial fact that any group, coming into the possession of the absolute power to "print money," will tend to . . print it to excess!

However it is out of this idea that Milton Freidman, recommends a currency commission to keep the two functions separate, but in one overall body or bank (or government body), and regulate it by keeping 100% reserves.

The contrast between the World bank and IMF could also be made at an international level all over the world.

Of course those who see free trade and the *laissez faire* **Capitalist society as just plain wrong no matter how much it fine tunes itself, it is hard to convince them with considerable justification that even if Capitalists did not wish an underclass, Capitalism will inevitably produce one, as a eventual underclass, is built into its very mechanism.**

Capitalism runs on debt with the 100% school, trying to remove this problem, and Capital acts like water in a Greco/Roman Archimedean screw, where the wealth of society is lifted uphill as the spiral turns, creating an elite. The ancient device is still in use today.

Inflating the currency under either school (i.e. the Currency school 100% reserve) versus the banking school (free market economics),… or 100 % Reserve Banking versus Fractional Reserve, by charging interest on taxes, i.e. **The bank hath benefit on the interest of all monies which it creates out of nothing" Hollis**

And the underwriting the bank has also benefit of. i.e.

"they issued a £1, the holder of the £1 note had the right to demand that the bank give him cash for his note, but, if he made that demand, the Bank had the right to demand the Government raise the £1 by taxation and repay the £1 worth of debt to the bank so that the bank might repay its £1 to the note holder"

Both schools do not consider these crucial matters, as if they do not exist in the economic model The worlds population are defrauded out of their own money, at interest, by models which either do not have the currency or means to broker a loan, or sufficient power to regulate currency from interest charges where there should be none.

The effect of the great depression in America

Fisher was a genius in Economics, but the Wall Street crash took him completely by surprise he lost everything. After the crash he most likely obtained his second PhD in the school of life in a matter of a few months. He concluded that the main reason for the build up of personal debt and government debt was the heavy cost of the First World War. He realised that the whole money system was based on debt supplied as credit charged at interest. His first suggestion (received very badly) was to reform the credit system based upon the abolition of the fractional reserve system in use at the Federal Reserve Bank.

Fisher, Irving (1933) the Debt Deflation Theory of Great Depressions.

Proponents to this day maintain that it is not the abolition of the fractional reserve system (Austrian School) but the realisation that the Wall Street crash was caused by insider trading, and foreknowledge to make the fortunes of a few vast and in a matter of days. This view was particularly prevalent in Germany throughout the 1930s and 1940s.The fortunes of the bank of Hamburg if its history is studied had more than 100% reserve in its vaults, when its total lending was calculated, and this remained so over a 200 year period, up until 1812.

However Fisher opposed the fractional reserve system but still favoured the 100 % money system as a solution to the debt boom and bust problem.

Fisher, Irving (1936B)

As an experiment in 1932/3 Fisher introduced a “stamp scrip”, or stamped money (an idea first proposed by a German born businessman Silvio Gesall 1862 –1930, after he witnessed a severe deflation in Argentina in the 1880s).

Experiments in Germany and Austria in the early 1930s, and in Iowa, Illonois and Kansas gave a promise to pay (stamp scrip) to a worker issued from a municipality or public body, guaranteed by a bank. It could be taken out of circulation and be presented to the bank for conversion into legal tender. It could also be subject to tax by an ingenious method of paying 2 or 3 cents in the dollar per week, which was paid by affixing a stamp on the back of the note (scrip).This way payment of wages and the Inland Revenue was made in one transaction saving the municipality or public body time and money in collecting taxes. Its other value was that it circulated quickly as in order to avoid paying an extra weeks tax, it was therefore spent quickly by the agents. It had considerable success until the Roosevelt administration declared them illegal in March 1933.

Fisher thought this scrip would promote public works, and give workers an income who would otherwise be idle and wages would stimulate demand and increase prices of commodities.

Fisher 1933 Stamp Scrip

Keynes favoured the idea but thought that other ways of avoiding using the scrip would be found by agents if they were subject to tax (after the depression black market payment was in gold or goods or silver).

Keynes General Theory

The Chicago school under Freidman would later introduce a holding tax in the Second World War, taken directly from workers wages; in Britain a similar “emergency pay as you go” or PAYE was introduced. Previous to this tax was made on a yearly basis, and the PAYE emergency system is still in use in Britain as is the holding tax in the USA.

Complaints that this tax is too intrusive, falls on deaf ears.

Interest on money is the primary driver to inflate the worlds economy, racism defines who are the have’s and have nots, up to the WTO. It is also not hard to imagine one worldwide currency.Regardless this currency can still be used as a benefit for mankind, or a burden to its slavery, this is true of one country also.