Chapter 4

'Death on the Installment Plan', Whereby Governor Norman Came to Pace the Damnation of Europe, 1924-1933

'Twas I did not yet know men. Never more will I believe what they say, what they think. It is of men and of men alone that one must be afraid, always.
How long will it take for their delirium to end, how long before they just stop exhausted at last, these monsters?
Louis-Ferdinand Céline, *Voyage au bout de la nuit*.[1]

They gorge on God and the world. They do not sow. They just reap. They are the sorcerers in the flesh [who] make gold over the phone…'I was sitting in a great waiting-room and its name was Europe. The train was due to leave in a week. I knew that. But no one could tell me where it was going or what would become of me. And now we are again seated in the waiting-room, and again its name is Europe! And again we do not know what will happen! We live provisionally, the crisis goes on without end!'.
Erich Kästner, *Hymn to the Bankers/Fabian*.[2]

The Banking 'Grid' and the Rules of the Gold Game

Germany had to be resurrected —that is, rearmed and renovated: the Veblenian prophecy had foretold this much. As seen in the previous chapter, the date marking Germany's military re-awakening was April 1922, when the Treaty of Rapallo sealed that seemingly bizarre entente between the generals behind Weimar and Russia's Red Army. Then, one had to see to it that the industrial basis of Germany was restructured as well. Before the German economy might be overhauled, the drafters of Versailles waited until the hyperinflation annihilated the old mark. That crash had been a facile presumption on the part of the British experts: forcing the German government, which was mired in a (war) debt that was twice as large as the country's income, to pay reparations (in foreign exchange and gold) to the extent of two and half times the imperial GDP of 1913 *without confiscating that debt*, had boiled down to driving the Reich into a corner. In the strictures of that corner –capital evasion, depreciation of the mark, and tax evasion— the standard action of the Reich-Reichsbank duo could not but lead to an inflationary meltdown; there had been no mystery to it, no mistake about it. The only uncertainty had lain in assessing the time lag required for the completion of this financial burnout. It would have taken roughly three years to wipe Weimar clean of the old debt incurred to fight the Great War: i.e., from 1920 to 1923.

In the meantime, the Bank of England found a suitable Governor possessing the *ability to direct the forthcoming German bailout from London with American cash*. A most strange, and intriguing character by the name of Montagu Norman was the chosen custodian: Norman would be Governor for the extraordinary duration of 24 years (1920-1944); a case unique in the entire history of the Bank. During the last stages of the German inflation, Norman initiated the process that would re-anchor Britain and most industrialized countries to the so-called gold-exchange standard. This operation –grossly misunderstood by contemporary scholarship—was *by no means* a sorry attempt bungled by a few nostalgic gentlemen of leisure to resuscitate the monetary system of yore (pre-WWI). Rather, it was the peculiar creation of the British Governor, whereby he enveloped, so to speak, for the length of six years (1925-1931) the banking networks of the West into a single, highly leveraged and palpably unstable web of payments, which was in fact designed to self-disintegrate. This too was a game, in which all participating central banks 'chipped in' a given quota in gold. To amass and protect the gold base of his Bank, Montagu Norman tested in 1920 two fundamental techniques, which he would employ a decade later to achieve the Empire's objectives: 1) the pauperization of India by restricting her money supply (i.e., deliberate deflation) with a view to attracting Indian gold hoards to London, and 2) the encouragement of massive monetary expansion (i.e., inflation) in America as a means to lure gold away from New York, and convey it to sustain a steady flow of investment in Europe. By the mid-Twenties Austria (1922) and Germany (1924) were the first countries bailed out in this fashion, and the infrastructure of the latter was turned into a technological jewel. The modernization of Germany was consummated by unleashing speculative fury in America, whose public rushed to subscribe en masse reams of German securities between 1924 and 1929. Norman interrupted this speculative frenzy with the Great Crash of October 1929 to retain control of the last stages of the German incubation and the anticipated agony of Weimar. When in March 1931, Austria and Germany announced their common desire to form a customs union, and thereby a political condominium of sorts which de facto attempted to overcome the overall state of provisional fragmentation established at Versailles, Norman's new gold standard suddenly imploded. By having pre-arranged in the late Twenties the constitution of a so-called 'sterling-block', in which London would have drawn the colonies closer to itself to trade in a compact, self-sufficient core, the Governor readied Britain and her Dominions in the summer of 1931 to sever themselves financially from the rest of the world. Following a monumental charade, during which the Bank of England feigned to be the victim of endemic financial fragility, Britain abandoned the gold-standard in September 1931; thus she deliberately wrecked the international system of payments, and financial oxygen was definitively cut off from the Weimar Republic. Thereafter, while the Republic was easily torn apart by mounting unemployment, street violence, and social dissolution, the British clubs awaited the tempestuous rise of Germany's reactionary and radicalized movement: this was National Socialism, whose leaders, had indeed begun since the fall of 1931 to circle around the president of the Reich, Hindenburg, bidding for power. But the civil and humanist forcers of Germany resisted, and refused to give Hitler an electoral majority for the length of two additional years, at the cost of unspeakable suffering, until, on January 4th, 1933, the London-New York axis of high finance, abetted by 1) the duplicitous, yet cryptically pro-British posturing and meddling of the USSR, 2) the ignoble panic of the Vatican, and 3) the blind numbness of the SPD (German Social Democrats), cut to the chase by coming out into the open to pay for Hitler's accession to the Chancellery of the Reich.

1924-1933: This period witnessed the transition of Nazism from a state of quasi-irrelevance to that of champion of the long awaited German Recovery. Until 1929 it seemed that Veblen's forecast was given the lie, and then, suddenly, the dark horse of *Mein Kampf* was thrown onto the main stage *–thanks to social disorder*.

And there is the difficulty. In standard textbooks, the economics behind the rise of Nazism suffers a dreadful treatment at best, or, most often, is not treated at all, and the reader is customarily defrauded by being hastily assured that Hitler comes 'because of the crisis', no further explication being forthcoming. What of the crisis? Unless an effort is made to unveil the mechanics of this spectral collapse, Hitler remains an effect of chance, the social by-product of a silly financial season gone awry. And such a view is absurd.

For the student, these are difficult years since the phenomenology of this peculiar phase, which encompasses first and foremost the complexities of 1) the Wall Street Crash, 2) the banking crises of Austria, Germany, and Britain, 3) the severance from gold of the British pound, or 4) the open intervention of Anglo-American finance to install Hitler into power on January 4th 1933, has been meagerly documented, and the chain of co-responsibility among the political and economic circles involved in these events has remained in most instances most carefully hidden to this day. Nonetheless, the known facts are by themselves amply sufficient to incorporate seamlessly into the main narrative of the Nazi incubation a reinterpretation of the disquieting intermission of 1930-32. A reinterpretation that still points to the direct and conscious manipulation of financial aggregates on the part of Britain to obtain specific results in Europe, and especially in Germany.

From 1924 until 1933, British financiers led by the Bank of England became the absolute protagonists of the incubation. Diplomacy took the back seat, and banking artistry came in to play the lead in an astonishing performance begun in an atmosphere of deluded hopefulness (1924-25) and ended in utter catastrophe (1930-33). Montagu Norman was the symbol of this complex, and crucial interlude.

Without properly comprehending the functioning of traditional banking systems and the nature of money the key to Hitler's rise to power may never be held. And it is the lack of such comprehension that is chiefly to blame for discarding the decisive passage in the promotion of Nazism as the fruit of bad luck in times of crisis. Yet in history there is no such thing as luck –good or bad—and 'the crisis' does not belong to the order of natural catastrophes, but is the mere trough of a cyclical pattern that is generated by the relatively simple dynamics of money. And to this essential problem we now turn. What follows is here presented as a necessary introduction to the policies and monetary vicissitudes that stand in the background of Hitler's accession to power.

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The world is divided between those that create money and those that don't.

It all began with gold. Precious metals have a virtue, a property above all others, and that is their ***imperishability***.[3] So the blond metal became a medium of exchange, recognized by all – a token for transactions, which could ***also*** be hoarded in uncertain times, and promptly regain the markets so soon as the skies cleared. A disc of metal that was a barter unit and means of saving at the same time. Because men would not trust other men, gold they resolved to call money: it allowed them to petrify wealth into a ware that transcended the bonds of their community, which they felt was always prone to collapse. They could bury the coins in the yard.

Then, a group of individuals gradually came to be entrusted with the deposit of such gold stashes and the bankers were born; these realized that the owners of the gold stashes would claim for their weekly business only a small fraction of the amounts deposited, *which fact enabled the bankers to loan the gold to others*, while their legitimate proprietors assumed it still rested in the vaults of the banks. And soon the bankers distributed notes instead of shifting the cumbrous metal, and the concept of ***cover*** emerged: so much gold for so much more bank paper; in other words, the gold on deposit at the bank would always be a fraction of the paper-notes distributed –the smaller the proportion of gold to the notes, the riskier the banking policy. Against gold the bank would offer its clients drafts and checkbooks with which to purchase things and leisure. The banker that lent improvidently would suffer the infamous 'run' when rumors about his insolvency spread amongst the depositors: these would all rush to the bank to withdraw their moneys in gold, because it was always suspected that the bank never had sufficient cash at hand to pay everyone. All of this was known: it was known that traditional banking was erected upon an enormous fraud. For bankers, the trick was 1) to make people accept the bank notes as if it were gold, 2) possess the metal itself, 3) hide it in vaults, and 4) gradually withdraw it from circulation.

But banking was never reformed, nor were traditional banks shut down. No, instead they ramified, fast. And it could not have been otherwise, for once money was turned into a ware, i.e. gold, and was ***appropriated***, it was capable of wielding an archetypal force, unlike any other, which found its immediate manifestation in ***the rate of interest***.

This mere percent, which came to rule the lives of empires—what is it? A insurance fee, a commission? Neither, both of these the banks are wont to charge their customers separately. The rate of interest is the story itself. It is the price of the gold-money, it is the expression of that particular virtue, which gold possesses, and which its owner, as a rule, employed to embarrass others. ***It is the power of those (the bankers) that 'sell' a medium that does not perish (money) to take advantage of the rest of economy,*** *which is made of producers eager to offer for sale goods that decay* –from vegetables to housing, and tools.

Thereafter, the name of the game was to corner the supply of gold and monopolize the circulation of money. He who controlled the money, controlled the system itself: its activity, its politics, its arts and its sciences. Everything. And so the race began, a fierce one, which coincided with the constitution of the 'Grid' –the banking network. The Grid came to be made of a series of nodes located in the heart of economic activity, where the accounts were managed by their secretive custodians, the bankers, and linked by couriers.

Gold, for the most part, disappeared from circulation: it was hidden in the underground cellars of reserve banks, which gave the economy their paper instead. And so it was done: the gold had been relegated to whence it came –the paunch of the earth-, and money assumed the form it should always have taken, that bespeaking its nature: *an intangible symbol*. Money began to travel in the form of ciphers through numbered accounts, while the gold, dense and cumbersome, was duly stowed underground. But this money –these balances on numbered bank accounts— was never public money. The money was *owned* from the start. One could look at it as from behind a screen: but to lay hold of the cash the banker's permission was required. If granted, one could employ those filigreed checkbooks as special passes for navigating what had by the nineteenth century become an extraordinary tangle of commercial relationships. Therefore, the rate of interest was (and still is) the price paid for 1) employing a means that was imperishable, when money, like everything else, should have an expiration date, and 2) for gaining access to the proprietary Grid of the bankers.

This was merely the beginning. Then, the bankers proceeded to amass the gold, expand paper-notes bearing their name by a multiple of the gold hoard, charge usurious rates thereon, and impose their private, corporate monopoly to the national constituencies.

How did the Grid interact with the economic organism? The underlying principle was simple: whoever wished to gain access to the Grid –i.e., whoever needed cash— presented the banker with a *promise, a piece of paper*, that is, an IOU upon which he signed his freedom away to the extent of the amount of dollars requested plus the interest. These were the producers' (commercial) 'bills', debts *secured* on the producer's capital (house, tools, land, future income…), or even the State's Treasury bills, debts based on its power to tax the citizens –for the collectivity as a whole was the Grid's client; both citizens and State had to pay if they demanded money for daily exchanges. The banker put money into the economy by *mortgaging* the life and goods of the economy – it was as if the banks, by dint of their control of a scarce, imperishable medium of exchange, were the pawnbrokers of citizens and State .

The promises (IOUs, debts) of parties –public and private—, whose credentials and name passed muster were then ranged carefully in a large portfolio, which held the bank's assets. The banker's operation was called *discount*: he took a debt worth 100, discounted it by, say, 10 (interest), and surrendered 90 in cash. *The money market was nothing but the sum total of the Grid's appetite for the economy's paper*: domestic or national stocks, short-term or long-term bonds, public and private debentures of the most diverse sorts. The more paper-promises the banks purchased from the people and the municipalities by discount, the more sanguine their expectations of the economy's vigor, and the more cheaply did they sell their money: *the interest rates decreased*.

Decreasing rates, coupled with steady injections of bank-cash, set off the boom, and a boom was accompanied by rising prices: this was a *credit inflation*. If the boom was strong, the going rate of interest would climb to match the price rise –this was the phenomenon of the ***hausse***: it was an automatic mechanism implemented by banks for sharing in the windfall profits of abundant money, and for keeping the price rise under relative control –it also boiled down to rationing credit away from the least profitable concerns.[4] The boom lasted until the earning-capacity of the borrowers covered the interest; but when, owing to abundance, *prices after a while began to decrease,* this differential (rate of profit minus rate of interest) shrank rapidly. Suddenly the economy recalled that the money it had been given stemmed from debts.

When producers could no longer pay interest, it was the end: the banks said 'enough', they recalled the loan, the concerns went bankrupt, workers worked no more, and the cash retreated in canals of the Grid. The crisis, the misery, the strangulation of society.

This sort of pervasive paralysis had become a defining trait of modern financial systems after the several banking oligarchies, each in control of its particular node along the network, had been prompted to erect a representative body –the Central Bank— to watch the gold and to fix the rate of interest (i.e., the price of money); of such a Bank the private concerns partook through share-holding, and to its Court or Directorate they would send a councilor in order to handle the delicate interaction between the Grid, the State, and the underlying economy.

And the great societies of the West fell one by one: by the end of the nineteenth century, each country suffered a Grid of her own, which culminated in a central organ presiding over a credit structure arranged like an inverted pyramid, the inverted summit being its hoarded gold. Upon this aboriginal hoard (i.e. the 'gold cover'), along with the mortgaged property of the world, were piled the reserves of the member banks held on deposit at the mother institute, and upon this cover the member banks carried on their extortionary business. The money of the big banks itself furnished a cover to lesser banks until such leveraged expansion of check-money reached the peripheral banking branches, which delimited the base of the pyramid whereon the economy itself was perched most precariously.

Thus much could a vein of ochre metal.

By the second half of the nineteenth century, under the famed 'gold standard', all industrialized powers had a currency expressed in gold –a mark, a franc, or a pound was decreed to be worth so many grams of gold, and notes were declared by law to be convertible into gold at the given ratio, called the *parity*. National currencies were anchored to gold, and the parity linked the several currencies in a grid of cross exchange rates. For instance, in Britain, under the regime of the gold standard, which prevailed before the Great War, 77 ***s***. 10 ½ ***d*** equaled a standard ounce (11/12 pure gold)[*], whereas in the United States, $ 20.67 equaled a fine ounce (12/12 pure gold), so that the exchange rate between the two currencies pegged to gold was 1£= $4.86. We shall bear this particular 'parity' in mind.

To compete in this game, governments, supported by their central banks, had to manage their commercial affairs and financial ventures with a view to protecting, if not steadily augmenting, their gold stock, which to a degree was a fair indicator of a Power's

[*] That is 77 shillings and ten-and-a-half pence, which was equivalent to 3 £ (20 shillings in a pound), seventeen shilling and 10 ½ pence.

mercantile accomplishment. The valve which regulated a country's inflows and outflows of gold was her *balance of payments*.

A balance of payments was a compound prospectus, which comprised a current account and a capital balance. The current account was a synopsis of the country's overall trade achievements; it looked into the mismatch, if any, between imports and exports of tangible merchandise (that is, the *trade balance*), and of the so-called '*invisibles*': shipping leases, insurance premiums, and interest payments. Indeed, the invisibles had always been the British Empire's forte. The capital balance, instead, measured the difference between the influx and efflux of funds into and out of the nation's financial center. *The chief instrument for the regulation of such flows of money was the Bank Rate*. The Bank might raise it significantly and thus *attract* foreign moneys to her banks; 7-10 per cent, they said, could 'pull money out of the moon'. Conversely, low rates at home would prompt domestic gold-owners to seek higher retribution for their idle funds abroad.

The obvious drawback of a policy of 'high rates' at home, however, was *that it strangled the domestic economy*: it might bring plentiful financial gains to the financial firms, the banking Grid and the absentee owners, but it harmed everyone else. And therefore as a policy tool it was safe to use it only sparingly, and never for prolonged intervals. When money was dear, investment was costly, and thus work was scarce.

As far as the movement of gold was concerned, the action on the Bank Rate was the one relied upon to bring about the desired effects in the most rapid manner. It was invoked, unfailingly, as the capital principle of 'sound finance' in times of crisis, that is when a central bank's cover was imperiled because herds of speculators sought to jettison the domestic currency and exchange it for gold –i.e. a 'run' on the Bank's reserves.

If a currency fell, and monetary authorities remained passive, speculators were inclined to borrow additional amounts of that currency, convert it into gold, wait for the currency to fall further, reconvert the gold in that currency, and gain from the extent of the fall. And on. A most pronounced raise (e.g., from 3 to 8 per cent) of the interest rate by the Bank could be counted on to inhibit such a practice (by making the speculators' loans much more expensive), and, most importantly, it functioned as an instantaneous summons for additional funds from external investors, with which to replenish the Bank's reserves, and for which the Bank stood ready to pay 'extra', i.e. the rate differential (5 per cent in the above example).

When a country ran a deficit on her balance of payments vis-à-vis another, either because she was buying from abroad far more than she was selling, or because capitals had been fleeing for some time, or both, she had to settle the balance in gold with her trading partner. When a country lost gold, the 'cover' of the central bank was accordingly diminished: she would thus have to restrict the amount of credit money in circulation in order to maintain a given, workable ratio (of gold to bank money). And what did she do? She raised the Rate to signal that cash availability was reduced, because of the gold hemorrhage. As a result, the exporters of capitals –all those absentees that had been investing against the national currency by converting it into gold, and shipping the gold wherever it might found a more remunerative yield— were discouraged, while foreign investors found renewed interest in the domestic capital market in light of the heightened interest. Thus gold could be expected to flow back home, and equilibrium re-established.[5] Conversely, a country that found herself fattened by an excessive inflow of gold, which had been streaming in on the wake of a persistent surplus on her balance of payments (owing to successful exports of goods, and/or to the offer of enticing investing opportunities), could afford to ***lower her rate***, and be expected to trigger a massive expansion of liquidity on her markets, as a consequence of a swelling base of gold. The is what America would do in the Twenties. An important consideration.

These were the so-called 'rules of the game' of the pre-war Gold Standard.

With the outbreak of the World War One, all players, with the exception of the United States, abandoned the gold anchor. When the European Governments resolved upon waging war, they pressed the Grid for permission to print much paper money with which they might outbid all the required resources away from their former employment, and devote them to the war effort. In view of such massive inflation, which would have made gold convertibility impossible, the gold figment was given up, but the privilege of the Grid to sell cash and checks to the War ministries certainly was not. And thus the patriotic communities of the world came in for another historical round of that prodigious swindle known as 'public finance': the Treasury of each fighting nation printed many a bond, the Grid discounted them against the provision of credit lines for the purchase of munitions, the public debt billowed, and the commoners paid taxes to the warring States, which in turn employed these funds to pay the interest to the absentee clients and proprietors of the Grid that had loaned them the bank-money in the first place.

On the vestiges of this monumental and savage cult Britain terminated the incubation of Nazism.

Montagu Norman and the 'Nationalization of the Bank'

Montagu Collet Norman was born in 1871 to a family of bankers. His father, Frederick, was a barrister in a banking house of the City. His paternal grand-father had long sat on the Court of directors of the Bank of England, and cunningly averted the promotion to Governor to for the sake of aristocratic phlegm, whereas the father of his mother, Sir Mark Collet, had been brought to accept the same post (1887-1889), and earn a modicum of glory in the process. Montagu was sent to Eton, whose regimen he came to dislike much. And when he reached Cambridge, he found himself out of sorts, and dropped out of school, not knowing whither to turn. The young man needed advice. Grand-father Collet was happy to oblige, and directed him at once to his own parish, the respectable acceptance house of Brown Shipley. Brown Shipley was the London Branch of the prestigious American bank, Brown Brothers & Co., which had carried on its ships 'fully 75 percent of the slave cotton from the American South over to British mill owners'.[6]

Thus in 1895 Montagu Norman was inducted into the banking brethren of the Grid. The rest followed: he was brought up to love Imperial England, and her bard, Kipling, whose *Soldiers Three* he knew by rote. But the family soon discovered that there was something wrong with him. Something that had to do with his nerves. Norman would frequently be preyed upon by sudden fits of harrowing melancholy, seizures of despondency so unbearable that his nerves would snap, and his delicate frame would swoosh to the floor like ballast from a shredded pouch. In the darkness of interminable convalescences he would nurse his nerves and a 'raging head'[7] back to life, and resume his activities thereafter. Oftentimes, hapless physicians would send him on exotic cruises to the sunny portions of the world. And these recurrent fugues from madness to faraway havens would punctuate from early on his tireless ministry for half a century.

At Brown Shipley he cut the figure of a 'lonely queer man'; he was unhappy there.[8] He found the atmosphere slow and fusty, and disagreement with the partners over the firm's management often led to nasty altercations, for which he soon ceased to be forgiven. Clearly, he had been conceiving a vision of some sort, and whatever it was, Brown Shipley was too tight an outfit for giving it expression. In 1913, for desperate lack of a manageable diagnosis he paid C. G. Jung a visit and offered the illustrious psychiatrist his 'raging head' for observation. The diagnosis was issued, and it was so terrible that Norman would never confide it to anyone. To his acquaintances he delivered the version that 'his brain had been found to "work wrong in a mechanical way" and that there was "an erratic corner in it in which it makes all the trouble".'[9]

By 1915, he had spent twenty years with Brown Shipley, cut his teeth with the company, learned about the Grid –its labyrinthine sub-alleys, its keys, and its many doors and traps— everything there was to learn, and felt, at forty-four, over-ripe for taking his leave. And the partners, who could no longer tolerate his presence, somewhat hastened Norman's departure in a mood of relieved expectancy. If finally came. The war raged then, in earnest.

By that time, some of his distinguishing traits were fully formed and appreciable to an outsider: a 'restless energy',[10] a 'secretiveness, sometime of a quite absurd kind',[11] 'a formidable memory, for places, names and facts',[12] a knack for dissimulation and acting[13], 'a tendency to over-dramatize,…beguile, and bamboozle the whole world',[14] which he could commingle with a fair dose of effusive charm that most could not resist; and a patent, if intermittent, insanity.

For a time he took almost every job that offered; he consulted and advised in matters related to Postal Censorship and Aircraft Insurance, until Brian Cockayne, Deputy Governor of the Bank of England, took pity and brought him to the Court as some kind of posh secretary without official status. Cockayne lost no time in disabusing Norman of any hope the latter might have placed on such an invitation, which 'would not in any way imply that [he] would be nominated as the next Deputy Governor'.[15]

> How the majority of the directors of the Bank of England really come to be on the Court…must, except to a few, remain a mystery…There is an inner cabinet called the Treasury Committee which deals with general policy and the Bank's relations with the Government. It is this Committee which really governs the Bank. It consists of the Governor, Deputy-Governor, and seven other directors. Who those other directors are is not disclosed. The Bank is really directed by a Secret Council. [16]

But then, it is not known precisely how –possibly owing to his keen understanding of the American financial realities, which the war had brought on a path naturally convergent to Britain's interests—, Norman so put his knowledge and experience to good use that he managed to make himself 'indispensable'. The custom at the Bank was to select among the directors a Deputy-Governor for two years and then to elect him Governor for the ensuing two years. The circumstances of the Great War caused an exception to be made and Walter Cunliffe, who was Governor when the war broke out, retained that office for five years –1913 to 1918.[17] And when Cunliffe bowed out, Cockayne succeeded him, with Norman as his Deputy in 1918. Cunliffe, a difficult man who had by no means left amongst the colleagues a pleasant memory of his tenure, began nonetheless to voice to close relations a deep fear of his that had taken on the guise of an obsession.

> 'Montagu Norman' he said, 'is far and away the best person they have at the Bank. He'll be the next Governor. There's nobody else in sight. But his brilliant neurotic personality is certain to cause trouble. I feel my responsibility now for having put him and the Bank in a very dangerous position'…'He ***needs*** the power just to keep going and he won't give up until it's too late…What I'm really afraid of is that the Bank of England will be nationalised in Norman's lifetime, and my only consolation is that I shan't be here to see it'.[18]

Virtually nothing is known of the important dialogue that must have intensified among the Bank, the Clubs and the Foreign Office at war's end, especially in view of the financial action that needed to be taken in post-war Europe. Considering the monetary complexity of the process that had been set afoot at Versailles, it could have no longer been a matter of semi-indifference to the Empire what sort of professional the banking dynasty of London was going to crown Governor. Cunliffe had spoken intriguing words. He had confusedly sensed that what he and most of his predecessors had always viewed as the representative collegium of an exclusive guild, could, in the capable hands of another banking priest, more imaginative than they, be imperceptibly rearranged so as to fulfill aims and duties, which were not going to be those selectively dictated by the inner circle of such a guild. Not only was the Empire, because of the war, enjoining the Bank to stand firm behind it, but it also seemed to look favorably upon the selection of a Governor who could successfully harness the banking network of the commonwealth to Britain's new, far more intrusive imperial directives, without bringing excessive disruption to the daily business of the banking community. This was most probably what Cunliffe intended by 'nationalization'.

On March 31, 1920, what Cunliffe dreaded came to pass: Montagu Norman was elected Governor of the Bank of England. 'For no more than two years', they immediately captioned, 'just as prescribed by the old statute'.

With sufficiency, the doges of the Court had let him in from the back door. And he stayed on. In five years he was consecrated pontiff of the Bank. And acclaimed, biennium after biennium, he would come to officiate his duties as Governor for the length of ***twenty-four years***. The oak had found its druid, and vice-versa.

And though, at first, he was resisted –certain quarters of the City complained that they 'didn't know the man'[19]—, he proceeded without wasting an instant to refit the ship in keeping with the exigencies of the post-war era.

Allies: above all Norman cultivated the connection to the mandarinate of the American Grid: J. P Morgan & Co. Of that clan, first and foremost of his trumps was the Governor of the Federal Reserve Bank of New York (FRBNY), Benjamin Strong, whom Norman had come to know and like in the last two years of the war.[20] Strong, who became Governor in 1914 'as the joint nominee of J. P. Morgan and Kuhn, Loeb and Company',[21] was allegedly the first of a long series of preys that surrendered to the charisma of Norman, so much so that the American banker would later be accused by the U. S. President, Herbert Hoover, of being a 'mental annex' of Europe and Norman.

Style and mystique:

> The reputation for mysterious god-like aloofness and for tantalizing omniscience, which transformed the name of Montagu Norman into a legend well before the end of the nineteen-twenties, was one which the Governor deliberately and carefully sought…Open conflicts, …even private disagreements, were crude methods which he abhorred…Norman developed refined techniques of his own to impose on the City of London, [which] as a whole quickly succumbed to the almost superstitious awe inspired by the uncanny reputation he acquired for simultaneously knowing his own mind and everyone else's intentions. His first and greatest talent lay in bending to his own ideas and purposes those friends and colleagues who had already fallen under the spell of his personal charm…*Like a human spider, he chose to spin a finely meshed web of private contacts radiating from his office into every nook and cranny of the City*…Nothing new or significant could happen without Norman's coming to hear of it at once…He would then…approve or disapprove,…support or condemn. His sources of information were unrivalled and usually accurate. He was…astoundingly well-informed.

And with a remarkable display of condescending apologia, Norman's biographer achieved this esquisse of the 'human spider' with a bold reflection, which is a fair instance of a long 'scholarly' tradition of omission and complicit muddling surrounding the record of Norman and the Bank of England in the inter-war period :

> And what was Norman if not a long-frustrated understudy destined at last to play a major part in the drama of public life? Sure enough of his lines, he was less sure of the plot.[22]

One may wonder: how can a consummate arch-priest of the Grid endure a twenty-four-year long pontificate as the treasurer of the world's Empire, in coincidence with the most critical juncture of western history, without being 'sure of the plot?'

The plot, in fact, had begun to unfold at Versailles, and Veblen's prophecy concluded the first act. The second act, set in Germany, was a crescendo of putschist shenanigans that culminated through the apotheosis of national bankruptcy in Hitler's Beerhall coup. Presently the action had shifted to the world markets, while the German experiment was left to simmer in a pool of unknowns. And the Bank of England had not lain idle in the meanwhile. Norman had watched everything studiously, and paid especial heed for some time to the deeds of his friend Ben Strong across the Atlantic.

Right at the time of Versailles, in June 1919, the United States was experiencing her first post-war boom, an extraordinary credit inflation that had been sparked throughout the world conflict by the massive orders for foodstuffs and supplies on the part of the Allies. Given a plentiful gold reserve, a swelling credit base, surging prices, and low unemployment, America's *additional credit-money had set off a feverish stock exchange and real estate speculation*, which reached its height in November 1919.[23] The gambling mania on the exchanges drove the rates for 'money on call'[*] to phenomenal heights –20 percent and higher. In London, as in other financial centers, no sooner were such quotes available than balances were drawn from the City, and conveyed along the banking network to Wall Street, to fetch the higher rates. In other terms, capital was exported at once, and as the transfer persisted (British investors selling pounds to

[*] Loans repayable at the option of the lender or the borrower within a twenty-four hours' notice.

purchase dollars), the pound sterling weakened vis-à-vis the dollar, which was the only currency anchored to gold in 1919: to lose versus the dollar was to lose versus gold.

Considering that the chief objective of Britain after the 'return to normalcy' was indeed to re-anchor her currency to gold, such an escape of capital and the consequential drop of the exchange posed a serious problem. Why was it imperative to re-anchor the currency to gold? 'Prestige!', replied the constables. But that was a lie, and a big one.

The Bank was in fact readying herself to plan a game of strategy so complex, and potentially so dangerous that it required the greatest prudence and on the part of the clubs privy to its nature. And these knew what mien to deport when it came to parry impudent inquiries from the public into their activities: they simply would 'never explain, never excuse'. A maxim of which 'Norman was inordinately fond'.[24]

To go back on gold, Britain gave herself ***five years*** —till the end of 1925.[25] But first, she had to tackle a few problems in her colonies.

India, whose Grid was rather rudimentary, had a proverbial hunger for noble metals, with which debts were settled on an ordinary basis. Her contribution to England's war exertion had been such that, from September 1919 to February 1920, she demanded to be satisfied in gold for her conspicuous trade surplus vis-à-vis the imperial center, thus bringing tremendous pressure to bear upon London. And that, what with the pull from the speculative craze from Wall Street, further enfeebled the sterling. India had tried to secure gold during the war, but she had been sourly rebuffed. She thus had to content herself with either silver or sterling balances.[26] Of the latter India wanted no more, and so since gold could not be had from London, she drew on her sterling balances in London to purchase silver from the Americans. But that too, lamented the British Treasury, weakened the pound (versus the dollar). It was time for the financial stewards of the Empire to intervene; and here is what they did.

They conducted a two-pronged maneuver against their Indian colony. First they struck at the silver market. They unilaterally decreed in 1920 that the silver coinage of England was going to be reduced from a standard of .925 fine to a basic fineness of .500, which is to say that the content of alloy in each silver coin was about to become double of what it used to be. 'Australia, New Zealand and later most of the principal countries of Europe and South America followed suit'.[27] So Britain, withdrew her good (fine) silver coins from circulation and sold them on the markets at the stellar quotes of 1920. The movement brought about immediately a precipitous fall in the price of silver. Thus the steep depreciation of the white metal alleviated the strain exerted on sterling,[*] and in the long run would altogether dispose of one channel through which India imperiled Britain's restocking of gold.

Simultaneously the stewards assailed the gold front. On February 1920, they decreed unilaterally that the rupee was to be pegged at 2*s*, two gold shillings. In other words, the British financial officers rendered the rupee enormously expensive in terms of gold, deliberately. The semi-coercive measure was introduced by blandishing India with the deceptive prospect of her buying silver, or anything else she wished around the world, at bargain prices. And so Indian imports, boosted by an artificially strong currency, did boom, while naturally her exports suffered a disastrous decline, which abruptly reversed the trade balance with Britain.[28] Farmers dependent upon exports suffered as they witnessed their prices plummet to match the world level, and as a consequence their

[*] For far fewer pounds were now needed to purchase silver with dollars on the American market; thus the sterling was relieved.

income sagged. The final blow was struck by way of the capital account: those absentees in India who could afford to do so, realizing the blatant overvaluation of the rupee and its inevitable fall, moved at once to convert their rupees into pounds, and then convert the pounds into gold. Such capital flight (towards England to buy gold) automatically diminished the gold-standard reserve, which the Indian government maintained in London. To restore this reserve, sterling securities (the standard form of banking collateral), which formed the 'cover' of the Indian paper-money circulation, had to be withdrawn from Bombay and remitted to London, and thus, to compensate for the transfer, credit in India had to be restricted.[29]

Smitten once with an overvalued currency, which by depressing prices struck at their livelihood, and smitten twice with a credit crunch, Indians were at last bereft of any means wherewith to demand gold. Not only that: the Empire's stewards were also shockingly pleased to notice that ***their scheme had prodded a vast segment of the colony's population to unearth its silver and gold hoards*** to pay for a debt burden exacerbated by the artificial dearness of the rupee. Indeed, it had caused some gold to come out of the Indian soil, reach the government offices, and ultimately find its way to London in repayment of the adverse balance of payments.[30] By October 1920, India emerged as a net exporter of gold and remained one until the last quarter of 1921.It has been lamented that the Government of India 'was, at best, a mute witness in this sordid affair'.[31]

Rather devilish than sordid, the tactic succeeded splendidly. The solution was yet provisional, and Norman had had no central part in it, though he must have known every inside detail of the operation, which had begun shortly before he took over at the Bank, and of which, given that India was one of his 'most important financial interests',[32] he impressed a capillary image in his vast memory. Norman certainly had a part, however, and the chief one at that, in the resolution of the first post-war American boom, which truly marked the beginning of his financial regency, and stood as the initial, crucial instance of the stratagems he would have employed a decade later to achieve his, and the Empire's far-reaching goals.

From graph 1 (on p. 131), which depicts the evolution of the cost of money in Britain and the United States, it may be seen that so soon as Norman was elected Governor, the rate in London jumped from a high level of 6 per cent to a heady 7 per cent –one full point above New York. This was the gambit of a policy coordinated in tandem with the Federal Reserve in New York, *which would be replicated in 1929*.

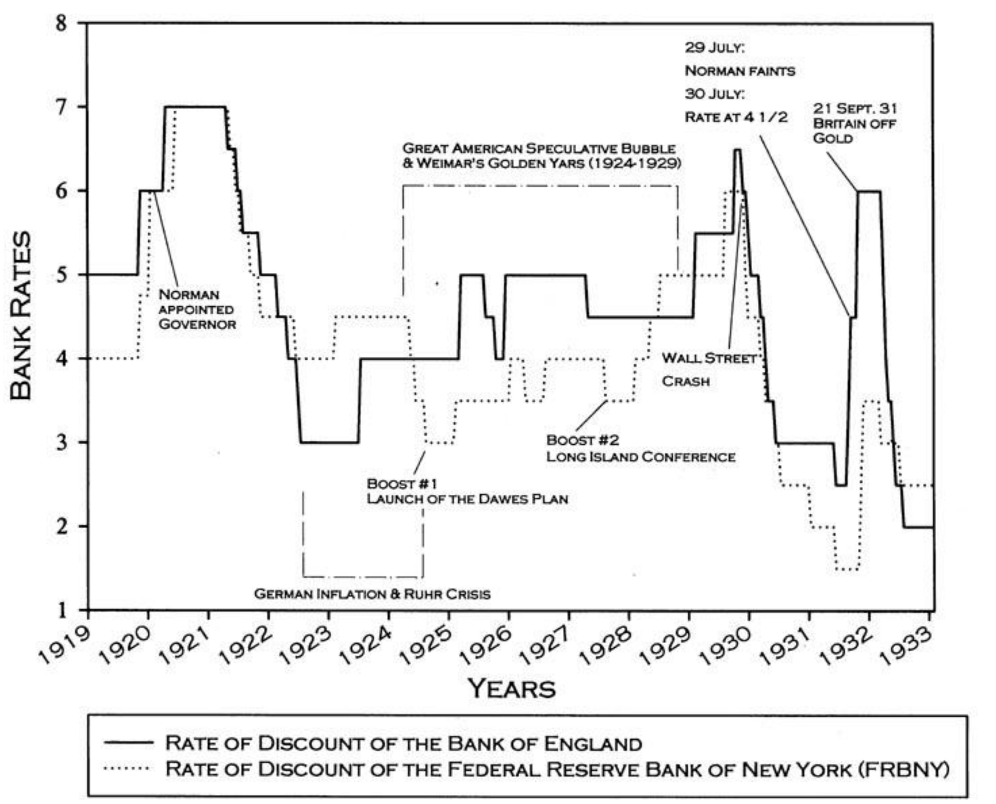
When Norman smothered Britain with a Rate of 7 per cent, 'sending unemployment above the one million mark',[33] Strong followed suit, and the rates were kept at that level for an entire year, so that by the spring of 1921 both countries had come to live through one of their all-time severest depressions: in the 1920-21 biennium, unemployment in the United States ***increased by*** 6.5 per cent; industrial production, agricultural production and GNP decreased respectively by 19.3, 6.1, and 2.3 percent,[34] while a vertiginous drop in prices of 44 per cent inscribed itself as the sharpest price decline in the whole history of the country.

Norman justified his move by stating in his first official speech of 15 July, 1920: 'We are striving to return to…the gold standard. A debtor nation cannot expect lower rates than those of a creditor nation, and our rates are now below those in America'.[35] So, the swiftest means by which gold might be recaptured and preserved was to up a Bank Rate that was already high above the rate prevailing in the 'competing' marketplace of New York. 'The unemployed', Norman would argue in general, 'were unemployable'.[36]

In Britain, under Norman, one out of ten workers would remain idle throughout the inter war years.[37]

Norman always affirmed quite rightly that joblessness was not his affair, but that of the government; his task was to attend to the financial welfare of the Empire, and he did: with the collusion of Strong, he killed the stock market boom in Wall Street, shattered America's real estate prices and bankrupted her farmsteads, ***and all that, indeed, to check the dispersion of British money to Wall Street***. The important question that remained was why would the American banking elite go along with this British policy of economic strangulation?

THE LONDON/NEW YORK TANDEM DISCOUNT POLICY,1919-1932



When the two governors met in December, 1920, they were pleased to concur that the policy of making money dearer, though somewhat precipitate, had been 'wonderfully successful'.[38] What they meant by 'successful' could be seen in Graph 2, which portrays the rate of exchange between sterling and dollar. It is clearly visible that since the accession of Norman (March 1920), England was attempting tenaciously to regain the gold standard at the old, pre-war parity of $4.86 for the pound. Governor Strong at the Federal Reserve was not only looking forward to that event, but he was also satisfied to have terminated the abnormal growth of the US money supply, which since June 1919 of post-June 1919 had been allowed in 1920 to reach unprecedented levels.[39] Many have wondered why the Federal Reserve, which had been incorporated at the end of 1913 with the avowed goal to dampen the wild fluctuations of the cycle and prevent a generalized state of insolvency of the domestic economy, failed so miserably its first serious test as

America's financial watchdog in the aftermath of the war: the 1920-21 recession appeared abrupt, brutal, inexplicable. Again, why had the rate been kept so high, so long? In 1920 as well as in 1929, and indeed throughout the inter-war years, American monetary policy is incomprehensible if taken out of the context of European politics, and specifically of Britain's agenda.

The truth was that after 1920, Strong, the American Governor, consciously restricted credit at home to reduce significantly the volume of cheap credit to Europe. Indeed, the stewards at the Fed coordinated with London a rate increase to 7 per cent, which allowed both countries *to pile up gold*: it was in fact between 1921 and 1924 that America underwent one of her great waves of gold accumulation, and of all European countries England was the only one that accumulated gold after 1920.[40] So then, why did the Federal Reserve decide to store up metal at this time? What was it anticipating?

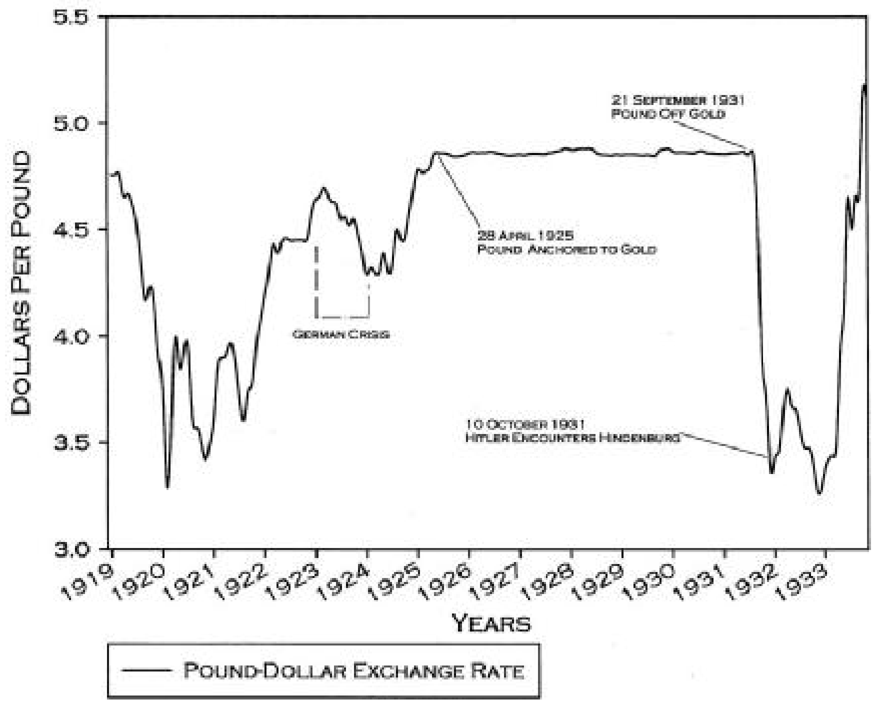
> For years it had been a commonplace of monetary discussion in the United States that the gold which came in just after the war would return to Europe when it was again needed to support gold-standard currencies in Europe…[41]

The hike of the interest rate in the US was the clear indication that the time to invest in Germany and surroundings had not yet arrived and had thus been postponed. Norman and Strong were preparing the terrain for the great German bailout, and the concurrent return to gold by Britain, which were going to take a few years to engineer. Graph 1 illustrates this pantomimed chase of the Rates, in which each governor feigned in public to saddle on the other the responsibility for the tightening. And whatever the bankers did, which the public never comprehended, these punctually justified their actions by blaming 'the fear of inflation': oracular nonsense that was seldom, if ever questioned. And so it went: Norman upped the rate in April 1920, Strong followed in May, and after a year of 'wonderful success' in attracting gold to their respective cellars, Norman again took the lead in 'easing the markets' by pulling the cost of money downwards, and New York followed.

Thus far the experience of Norman had been to re-live one of the fundamental teachings of the old gold standard, namely, that England always had to strengthen herself to govern between India and the United States[42] –her two gold-hungry colonies; *and that, when it came to protecting and adding to the gold treasure of the Bank of England, the most incisive impact might be achieved by causing 'money famine' in India (deflation), and monetary abundance in the United States (inflation)*[43]*: i.e., by forcing the ryots to dis-hoard their metal, and encouraging a boom in America while keeping London's rate above New York's.* When Germany would be cleared of her war debt, this policy would be implemented to the full as London would succeed in staying above New York for a protracted period of time (i.e., the duration of the five-year bail out; see graph 1).

Thus, between 1919 and 1920, the Bank of England managed to shield the sterling exchange, and increase her gold stocks by £50 million, reaching a total figure of £128 million (ca. 865 metric tons). [44] This amount was slightly less than what would become the statutory cover of the Bank upon her return to gold in April 1925: £150 million (8 per cent of the total world reserves).[45] In short, *by late 1920 Britain's gold*

STERLING-DOLLAR EXCHANGE 1919-1933



hoard had been reconstituted. Where were these additional ingots, presently in Norman's vaults, being shipped from? Stenographic sources mentioned South Africa, and ***Russia***.[46] Were they then a chunk of Kolchak's treasure trove?

From this time on, the markets expected the pound sterling to become convertible into gold. The anticipation is discernible in the ascending path of the sterling/dollar exchange, whose initial point (the first quarter of 1920), coincides with Norman's appointment to the governorship (Graph 2). The ascent of the pound was interrupted three times: in the second half of 1920, in mid-1921, and throughout the controversy on reparations and the Ruhr Crisis, from the summer of 1922 till the end of 1923. The war between Russia an Poland, and a sizable reparations payment remitted in dollars through London accounted for the first two troughs in the curve,[47] thereafter the fate of the pound appeared to hinge on that of Germany: unless the latter was cleansed of her war debt, Britain's plan could not be set in train.

Therefore, between 1922 and 1924, the Bank of England adopted a 'policy of waiting'[48]: trade was stagnant, and hiding behind a bank rate of 3 per cent – up to 1 ½ percentage points below New York (Graph 1)—, which did not rock the British economy, Norman kept an eye on the Reich, and let America swallow more gold, confident that in time he would be able to lure the Yankees into expanding credit, lower their rates, and therefore relinquish some of their copious gold. Because in these years, though Norman's grip on Strong was potent, the latter, acting as the Anglophile mediator between Britain's imperatives and Wall Street, had been incapable of prodding US bankers to launch another inflationary boom for the sake 'international cooperation':[49] at this time the American financiers failed to see what they would stand to gain from pumping in new money to invest in Europe's uncertain environment.

Germany, as Norman well knew, was the key with which he would unlock the stalemate.

So, in the meantime, while in 1922 the American Grid momentarily recoiled, Norman, the 'human spider' ventured in a peripheral experiment around the German unknown: using all his persuasiveness on Dutch, Swiss and American bankers, he secured a jumbo loan for Austria. Thanks to it, inflation was halted, the currency stabilized, and the economy of a former enemy country restored with exemplary rapidity.

> The Chancellor of Austria… dropped a remark, which reached his ears in due course: 'I'd like to erect a statue of gold to the remarkable Mr. Norman.'[50]

Norman thus established a precedent that he would later apply to the *pièce de résistance* of the plan: Germany.

By the end of 1923, three of Britain's chief financial stratagems had been rewardingly rehearsed under Norman's direction: 1) a concerted (with the FRBNY), stepwise, tightening of Bank Rates to deflate a speculative bubble and swallow gold, followed by acute depression; 2) the overvaluation of the rupee coupled with mass sales of silver, by means of which the scourging of Indian peasant-farmers might be relied upon to suck into London their gold hoards; 3) a small-scale bailout, with which a former hostile country, Austria, was shored up with foreign credits, and was thus rendered prone to crashing violently upon the withdrawal of such Allied financial props.

In November 1923, the Reich was being purged of its debt; diplomatic prisoner, cosmopolitan whorehouse, financial hostage and Nazi hothouse, the Weimar Republic was presently scheduled for a great jamboree, a Five-Year-blowout at the American manger, catered by the governor of the Bank of England. This would be the most spectacular bailout of the twentieth century, followed by the bitterest harvest of history: the Dawes Plan of 1924 – generally recognized as Montagu Norman's 'masterpiece'.[51]

Credits lines would be shot out from the Allied Grid, to hook onto Germany's brand new monetary network like grappling irons. And before the transfusion might begin, a native adjutant issued from the great banking brethren would be specially ordained to vigil over the harness.

The Dawes Bailout and the Hierodule Schacht

Hjalmar Horace Greeley Schacht was born in 1877 in Schleswig-Holstein. His father William harbored a passion for America. One year before Hjalmar was born, William Schacht had returned to Schleswig-Holstein with a basket of failures, a membership to a Free-Masonic Lodge and the acquaintance of *The New York Tribune*'s powerful editor, whom he revered, Horace Greeley –a vocal anti-slavery advocate in Lincoln's epoch. Of these three meager spoils, Hjalmar bore the mark of the third (in his name), inherited the seed of second (free-masonry), and would want to have nothing of the first (failures).

As a youth Hjalmar felt called on to 'great things' and his attraction to the mysteries of the Grid, which in Germany had developed by the late nineteenth century into a voluptuous embrace between heavy industry and cosmopolitan merchant banking, was immediate and intense. His apprenticeship, which lasted thirteen years (1903-1915), was completed within the halls of the Dresdner Bank, one of the great Berlin banks, where, like Norman at Brown Shipley, he acquainted himself with every aspect of the business. Then the war came, and he served briefly (October 1914-July 1915) as a steward of the banking administration in occupied Belgium.[52]

The problem he was hired to solve was how to induce the Belgians to remit the occupation costs in cash.[53] The method Schacht applied in Belgium was a standard banking routine, which he would systematically perform in the course of his professional career, in Weimar as well as under the Third Reich, to squeeze money out of the Grid.

Schacht suggested using a ***loan***. He proposed that the Belgian municipalities issued bonds. Bonds which would be purchased by the wealthy Belgians. The cash thus collected would go to the German soldiers via the occupied municipalities, and the Belgian people would be counted on to: 1) 'sell' goods to the German armies, and 2) pay taxes wherewith the Belgian authorities were to repay the Belgian rich. The scheme, which was clever, would not work, however, because the Prussian generals, rapacious as ever, had no patience, and decided to print money instead, crassly. The Belgian stint did not have a graceful ending for Schacht: upon his return to Berlin, the banker was accused of favoritism and embezzlement for having provided his employer, the Dresdner Bank, with a great deal of those 'Belgian notes of occupation' at a significant discount. He defended himself, lying his way out of the snag, with the complicity of many, highly-placed others. Case closed: '*à la guerre comme à la guerre*'.

At war's end, along with Rathenau, he was one of the founders of the German Democratic Party, but unlike Rathenau, he was not too discriminating in finding the proper vehicle for his inhuman pride –provided it was the winning number, anything would do, be it Weimar's, the Allies', or later, the Nazis' bandwagon.

And so, under Weimar, he discreetly added to his 'interests' that of 'a minor official of the Allied-created German banking authority'.[54] On 22 March 1922, he submitted a memorandum to John Foster Dulles, the resourceful lawyer of the Wall Street firm Sullivan & Cromwell that had fashioned at Versailles the cavil thanks to which the cost for defraying Allied war pensions had been most dishonorably added to the final reparations bill. A midwife of the German 're-awakening' all along, Dulles presently oversaw in Berlin, among many other things, the overhaul of the German Grid.

In his proposal, Schacht envisaged 'a solution of the reparations problem' – a visionary draft whereby the Allies rather than loaning money to the profligate ministries of Weimar, would extend it to a cluster of giant conglomerates specially created for the purpose. Schacht contemplated the formation of giant industrial cartels, which would become the recipients of American cash-credits, as well as of special exporting licenses from the Weimar authorities that would enable them in, say, a decade to repay the original loan, and re-launch the German economy.

It was science fiction: a plausible scenario (the cartels) constructed on unripe fantasies (the concreteness of the reparations). And it made Dulles jubilant: it seemed as if the Anglo-American clubs had finally found 'their man'. Dulles forwarded the memo instantly to Thomas Lamont, a top fiduciary of J.P. Morgan & Co. with his plaudits: 'Dr. Schacht is one of the ablest and most progressive of the young German bankers, and it seems to me that ***his plan may contain some thoughts which may have some merit***'. And two weeks later Dulles responded enthusiastically to Schacht's proposal: 'If a period of political stability could be assured, I have no doubt that bonds issued by such monopolistic corporations as you mention would command the confidence of the investing public'.[55]

Now that Germany had blasted her currency, Schacht might be brought in to lead the 'reconstruction'. Out of thin air and five days after Hitler's putsch, on 13 November 1923, he was catapulted on the public stage as Germany's new Commissioner for the National Currency. His task was to bridge Weimar over the transition from the old, murdered Reichmark to the new, captive one.

Sitting behind a bare desk, and endowed with but a telephone, he called around his brethren of the Grid day and night for a week. Finally, by refusing to grant credits to speculators in a provisional currency devised for the transition, he signed the death certificate of the old mark, fixing its final purchase price at 4.2 trillion for a dollar. Thus the mark came to be stabilized at that fateful gold peg, 1$ = 4.2 gold-mark, with a net erasure of twelve zeroes.

> …The 20th of November contributed a milestone in the history of the stabilization of the mark…[56]

On that very day ***Reichsbankspräsident*** Rudolf Havenstein, the governor that had spurned the Kappists, lost to the inflation half of the bank's gold, and succumbed miserably before the rout of his currency, died of a heart attack. Norman had met him earlier that year, when the German had come crawling to him for compassion, and the human spider had found him 'a very attractive man: but so sad'.[57]

But the directorate of the Reichsbank, an inbred and 'malicious fronde of moth-eaten pashas',[58] were hardly bedazzled by Schacht's financial hokey-pokey, and had taken no liking to him. They wanted good old Helfferich, the Nationalist stalwart, former Imperial vice-Chancellor and Finance Minister, and chief Reichstag slanderer of Erzberger and Rathenau –a true, perfidiously impenitent column of the old order. Yet in Weimar, it was not the Germans that decided, but the Anglo-American clubs. Dulles recommended Schacht to Morgan & Co., Morgan & Co. to Norman, and Norman to Weimar's incumbent figureheads.

> During the summer and autumn of [1923, Norman] had first heard of Dr. Hjalmar Schacht as a rising German financier with a paradoxical mind and a will of his own.[59]

On December 22, 1923, Hjalmar Schacht was elected governor of Germany's Central Bank. And Helfferich had, by the bye, only a handful of moons left to enjoy: he would die in a train crash in April of the following year. Decidedly, even the gods were for Dr. Schacht. Norman could not wait to meet him; he confided to his entourage: 'I *want* to get on well with him'.[60] So well, that on New Year's Eve, 1923, he summoned the German without ado to call at his office in the Bank on the following day, at 11:00 am; 'I hope we shall be friends', he told Schacht before hanging up.[61] They met and became more than friends; they became and came to be referred to as 'twins'.

> …Schacht was only a useful instrument, the means to a greater end, yet one so necessary that Norman went out of his way to cultivate him for the good points he might possess.[62]

The November 1923 stabilization at 4.2 was merely the preface to the great Weimar bailout that would bestow upon German five years of 'synthetic prosperity'[63] – her so called 'Golden Years' (1924-1929). John Foster Dulles had mentioned in 1922 the need for 'political stability'. And that presently signified putting an end to 'French madness' –for that was how Norman viewed the French occupation of the Ruhr.[64]

In March 1924, the clubs, via Morgan & Co., launched a massive speculative attack against the French currency. The clubs' agents, posted in the several nodes of the European Grid, gathered francs and, coordinating the tempo with one another, dumped them on the exchanges.[65] The franc plummeted; the Bank of France found herself impotent before the raid: she did not possess sufficient means (foreign cash) with which to absorb the dumped francs and prop up their value. After having dealt the blow, Morgan & Co. came forth with the medicament: they offered France a $100 million credit for six months gaged on the French gold. In late April, the U.S. Ambassador to Berlin Alanson Houghton, wrote in his diary: 'England and America have the franc in their control and can probably do with it what they want'.[66]

On April 9 the Dawes Plan was announced. It bore the name of yet another one of those American 'great nobodies' of the Morgan era: replaceable, mediocre souls with average talents and a hard frame, itching to give History a nervous bite. Banker, Comptroller of the Currency under President McKinley, and former chief intendant of the American Expeditionary forces during WWI (a post he owed to his old-time buddy, Commander-in-Chief General John J. Pershing), Charles G. Dawes offered, in the capacity of American representative of the Reparations Commission, a foretaste of what was coming on January 15, 1924, at a meeting in Paris.

> The first step which we should take, it seems to me, is to devise a system for stabilizing Germany's currency, so that we can get some water to run through the budget's mill. Let us build the mill after we find the stream to turn its wheels.[67]

It bore Dawes's name, but it wasn't ***his*** plan –it actually 'made him sick', out of modesty, to hear it said afterwards that he did it alone.[68] No, in fact, the Dawes Plan was 'largely a J. P. Morgan production',[69] ***directed by Norman***, who proceeded at this critical stage, by the proxy of his American colleagues, to blackmail the French. If these wished to see their $100 million loan renewed, Morgan & Co. warned them, they had better adopt a 'peaceful foreign policy' peremptorily. Which meant that France had to accede to: 1) the hollowing out of the Reparations Commissions of any power; 2) the transfer of all such power to a special Reparations Agent, soon-to be impersonated by S. Parker Gilbert, a once graying bureaucrat parked at the U.S. Treasury, subsequently risen to better fortune under the wing of Morgan & Co.; and 3) the immediate evacuation of the Ruhr.[70]

In spite of its gratuitous brutality, the French impromptu in the Ruhr would be Europe's last semi-conscious revolt against the encirclement by the Sea Powers. When in 1924, France gave in, it was definitively over for Europe: England finally held the continent solidly in her grip.[71]

As to the 'building of the mill', the 'new' Reichsbank was entrusted to a General Council of fourteen members, half of whom were drawn from Allied countries. And by limiting, statutorily, the Bank's advances to the Reich to 100 million marks,[*] the mechanism for transforming the State's bills into worthless cash was dismantled.[72] Next time, if fall she would, Germany was bound to suffer the penury, rather than the depreciation of money –which was even worse.

The gold hoard. Norman's cherished hope was to fill the German cash-box with English pounds, which would afford him the complete and exclusive control of the country, but the Americans demurred: this was *their* 'deal'. And Norman acquiesced benevolently; he would explain in a letter to his mother:

> The Dawes machine, while nominally international, is in practice dominated by Americans. This suits me well…Europe is the 'promised land' to America; to be possessed even without competition![73]

In the end, it was agreed, Schacht's hoard would consist of a loan of $190 million dollars, one half of it to be floated in New York, the other half, for the most part, in London. For that, Germany agreed to pay 7.75 per cent –2 points above the world average. Of the Wall Street syndicate appointed to float the American *tranche* of the Dawes loan, Morgan & Co. realized $865.000 in mere commissions (53 per cent of the total).[74] The money thus raised was distilled into English pounds for ¼, and gold for the remaining ¾, that is U.S. dollars, thus reflecting the financial power ratio between the two Powers in control of the German prey. This borrowed money would 'cover' the forthcoming issues of new, post-inflation marks to the extent of 40 per cent. In August 1924, the old mark was replaced by the new Reichsmark, 2,790 of which might buy 1kg of fine gold –this was the old parity—, and all capital controls were removed.[75]

The United States, who had not even signed the Treaty of Versailles, unleashed now packs of accountants to appraise the value of the creeks, industries, forests and meadows of Germany before mortgaging the whole country: all her bounties had at last become collateral for the jumbo Morgan loan.[76]

And the reparations. The keystone of the Dawes-bailout, ratified on August 30, 1924, was the new agreement on the reparation payments. The plan lightened considerably the obligations of Germany. Without determining their number, the annuities were established as moderate in the beginning and becoming fixed, from 1928-29, at a figure that was susceptible to increase later, according to a certain indicator of prosperity.[77] This plan did not supersede the German reparation obligations as established in 1921, and the difference between the Dawes payments and the payments due on the London Schedule were added to the total reparations debt. Thus Germany would pay reparations for five years (1924-29) ending up owing more at the end than she did at the beginning.[78]

The pivot of the entire contraption was the role of the Agent General, who could at all times invoke from Berlin the so-called 'transfer clause', *whereby the annual reparation installment might be suspended if the strain against the mark should have become too strong*. The clause thus worked as a 'breaker switch',[79] which was designed to protect a steady flow of foreign investment into Germany from any interference that might be caused by the cash transfers of the reparations. If the Agent deemed that any

[*] Raised by law to 400 million marks in 1926.

such transfer might have weakened the mark, he might stop the payment: clearly, the clubs had engineered a system which minimized the risk of capital flight internally, and thus ensured for a number of years the remittance of the American funds earmarked for Germany's preliminary rearmament and industrial renovation.

The final touch. To crown it all, 25 per cent of Germany's public employees were sacked in 1924 –unemployment would number 2 million individuals in 1926—, the absentees were invited with little success to repatriate their exported capitals, and the rest of the economy was inevitably subjected to a *Kreditstopp*.

The truth was that $190 million scarcely sufficed to jump-start the German economy; ten years earlier, in 1913, the gold reserves of the Reichsbank had amounted to $280 million. On April 7, 1924, not to endanger his hoard and the 'cover', Schacht had no choice but to turn off the spigots. He wished he could have raised the rate of discount, but having the latter being put out of commission because of the hyperinflation –it stood at 100 per cent–, he could only distribute the new bank notes by rationing them on a discretionary basis. So he gave them to the sound concerns and let the unsound ones, along with a hefty slice of the population, go bankrupt: in the spring of 1924, business failures increased by 450 per cent.[80] But the stringency was not imposed for the sake of harshness: there just was not enough borrowed money to re-start the economy. So, where was the rest going to come from? The ***Kreditstopp*** was indeed decisive for it opened 'the door to the internationalization of the German monetary supply': ***whatever was not provided in the first installment would come by way of additional foreign loans***. [81] Not a single drop of Germany's circulatory system was to be hers; throughout the 'golden bailout' she would breathe on borrowed blood. Now that the mill was achieved, Germany would live off *'the stream'*, as Dawes had metaphorized in his Parisian allocution.

In 1925, as a token of gratitude for his financial embassy, the clubs elected Charles Gates Dawes vice President of the United States.

I. G. Farben and Germany's First Five-Year Plan

And then the American blood came gushing in.

> …The experts found the ship itself to be quite sound, and so reported. All that was necessary was to float it again on a tide of confidence. Once afloat it could bear a reparations debt burden of $625 million a year…That was the Dawes Plan, and on the undertaking to make it work the German government borrowed $200 million gold from Great Britain, France and the United States to begin a policy of fulfillment.[82]

Swarms of brokers, soliciting on behalf of the American banks, were suddenly seen buzzing in every nook of the German establishment. Rates in Berlin were high – 9 per cent on average throughout the 'golden years'; Morgan & Co. with their mouth watering, packed bundles of German bonds with a view to selling them to the 'American public'. And these cohorts of middle-class gulls, avidly wishing to see their money 'work for them' in the bank, parted with their savings to buy the German paper-promises.

> It was to the American public that the bulk of the German reparations were to be sold, and to accomplish this purpose a systematic falsification of historical, financial, and economic fact was necessary in order to create in America a state of mind that would make the sale of the bonds successful.[83]

Up until 1930, some $28 billion flowed into Germany, 50 per cent of which as short-term credits; the Unites States accounted for one half of the total. Only $10.3 billion was used for reparations, the rest went into many different, and interesting, directions. *Which is to say that after 1923 Germany never paid a cent for reparations out of her own pocket*.[84]

Finally, when Germany resumed to pay France the reparations, pacifying her, as it were, with an American-bred bone to gnaw at, the Franco-Belgian troops abandoned the Ruhr.* This initiated Weimar's absurd cycle of the 'golden years': the gold that Germany had paid as tribute after the war, sold, pawned and lost during the inflation to the United States was sent in the form of Dawes loans back to Germany, who then remitted it to France and Britain, who shipped it as payment for the war debts to the United States, who channeled it once again, burdened with an additional layer of interest, to Germany, and so on.[85]

In Germany, everyone and everything borrowed: the Reich, banks, municipalities, counties, businesses and households. The money was spent on housing, industrial machines, and public works. Weimar erected cathedrals of steel and glass, planetariums, stadiums, velodromes, fancy aerodromes, amusement parks, modernistic morgues, skyscrapers, titanic swimming pools and suspended bridges. Yet the world, and even the lenders at home, inquired with their politicians: 'why is Germany being boosted thus?' 'She is our ally against Communism', they replied, and the Weimar clerks hastened to echo the party line.[86] It is difficult to guess who must have been more nauseated by the telling of this lie, whether the Allies, or the Germans themselves. Be all this as it may, the money kept pouring in, and no one anywhere did anything to stop it. Germany was being turned into a veritable colony of Wall Street.[87]

It did not take much to realize that the arrangement was a house of cards: the moment Wall Street decided to recall its loans, Germany would plunge in complete, irremediable bankruptcy. What next? Nobody wished to give the prospect a careful thought. Only the fall was certain. It was a matter of time.

> The whole country, politically and economically is falling more and more into the hands of foreigners…A pin prick and the whole thing will blow up. If once the money is recalled in large quantities, we shall go broke –the banks, the municipalities, the joint-stock companies, and the Reich.[88]

But there was no tomorrow in 'Golden Weimar': as it gave bread and work, money was good, wherever it came form; the SPD and the trade-unions, all led by solid Marxists, were enthusiastic supporters of the Dawes loans.[89]

As for the 'interesting' uses of the foreign money, a substantial quantum thereof was sold by the Reichsbank in exchange for gold to the Russian Communists themselves –with whom the secret rearmament plans were proceeding apace—, thus affording the Soviets access to the western market for purchases.[90]

* The last troops left in July 1925.

But far more significant at this time was the re-organization of the I. G. Farben concern into one of those giant conglomerates imagined by Schacht in his draft to John Foster Dulles in 1922.

The story of I. G. had begun, in the early 1900s, with colors (*Farben*, in German). The dyestuff industry had consisted then of a nucleus of venturesome combines that had invested heavily in the quest for color and pigment. BASF, the boldest of the group, and 'a trademark surrounded by awe in the corporate realm, mastered early on reds and yellows. But unlocking the secret of synthetic blues was more troublesome'.[91] Eventually, after the mystery of synthetic indigoes had been solved, and added to a long list of ground-breaking discoveries, featuring, among others, Fritz Haber's fixation of nitrogen and lethal experiments with chlorine, which had also been funded with BASF grants[*], the so-called Big Three, BASF, Bayer and Hoechst, joined by a few other satellites of Germany's intimidating chemical pole, had merged into a cartel in 1916. They had formed thereby a loose, but sweeping amalgamation congruent with Rathenau's office for war resources, which drew therefrom its leading assistants.[92] 'The structure came to be known simply as I. G.': ***Interessen Gemeinschaft*** (community of interests).[93] It stood as 'an industrial colossus…that dominated the chemical business of the world…Few universities could match the profusion of Nobel Prizes earned by its scientists'.[94]

At war's end the drafters of Versailles had instructed the Allied inspectors to leave I.G. in peace.

> Unlike the French, the Americans and the British were careful not unduly to upset the I. G. officials. Assurances were given that the investigators would not 'pry into the secrets of commercial value in times of peace'. No technology would have to be revealed nor questions answered unless they concerned weapons or military applications. 'This reassurance', reported a U. S. Chemical Warfare Service officer, 'established a more or less cordial relationship between us'.[95]

Indeed, when the questions touched on military patents, not only did the Anglo-Americans not reveal anything either, but they even actively collaborated with the German princes of alchemy.

Thanks to the bailout and the 'capital liberalization' of the Dawes intermission, the six concerns of the I. G. cartel, desirous to increase market share in the world markets, finally resolved to coalesce into a single pool of know-how and financial might. 'The fusion took place on December 9, 1925. The companies were merged to become Internationale Gesellschaft Farbenindustrie A.G. —or I. G. Farben, for short'.[96] The monstrous consolidation followed from the dream of its leader, Carl Bosch, to liberate Germany from depending on foreign oil wells.

Were these not the days when the great cannon-maker, Krupp, whose assembly lines in the Urals and near Leningrad were clangoring at full throttle, rented discreetly a suite in Berlin around the corner from the Defense Ministry? A suite where his best engineers might design in tranquility the weapons of mass destruction of the future, while the top brass living next door draft mobilization plans that called for a sixty-three division

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[*] See Chapter 1, p. 34.

army? [97] It was thus a certainty: 'in the mechanized war of the future the need for liquid fuel was going to be astronomical'.[98]

For the purpose, the alchemists of I.G., concocted a marvelous process, called hydrogenation, whereby coal, of which Germany held abundant supplies, might be mutated into oil. At this time, BASF had performed the transformation up to half the weight in coal. Therefor Bosch would be awarded the Nobel Prize, 'the first engineer so honored'.[99]

The only way to make the dream come true, Bosch reasoned, was to draw America's top petroleum trust, Standard oil, into some type of alliance, with which the great corporation from New Jersey might be made to shoulder the cost of Farben's research and development of synthetic fuel. After years of mutually fascinated cooperation, especially on the part of the Americans, the accord with Standard Oil was sealed in 1929. In exchange for the world rights for the hydrogenation process, with the exception of Germany, *Standard transferred to I. G. $35 billion in Standard oil stock*. December 1929 witnessed the creation of a joint venture subscribed by I. G. and Standard Oil, for the mutual exploitation of precious patents and the manufacture of synthetic oil, named American I.G. Company, on whose board sat a few of America's great captains of industry and business: Edsel Ford of Ford Motor Company; Walter Teagle, head of Standard, and Director of the FRBNY; C. E. Mitchell, chief of National City Bank, and Director of the FRBNY; and Paul Warburg, first member and creator of the Federal Reserve Board, and Chairman of Manhattan Bank.[100]

'The full story of I. G. Farben and its world-wide activities before World War II can never be known, as key German records were destroyed in anticipation of Allied victory',[101] but there are sufficient testimonies to suggest that German-American technical and military collaboration, shielded by complex corporate contracts, hosted in the 'neutral' nodes of the Grid (such as Holland and Switzerland), went on throughout the Thirties, and well into the duration of the second world conflict.

> Standard Oil [will keep] its cartel with I. G. Farben alive, war or no war…A Standard official said:…'Technology has to carry on…'[102]

During the second world war, I. G. would provision and supply the Nazi regime with the bulk, if not the entirety, of the following essential staples: synthetic rubber (100%), dyestuffs (100%), poison gas (95%), plastics (90%), explosives (84%), gunpowder (70%), aviation gasoline (46%), synthetic gasoline (33%), not to mention the manufacture of Zyklon B, the canned cyanide employed to annihilate of the camps' inmates, which was produced by I.G. Leverkusen and sold from the Bayer sales office through an outfit called Degesch.[103]

An American post-war committee, drawn from the senate and chaired by Harley M. Kilgore, a Democrat from West Virginia, after gaining a fairly deep insight into the ramification of American collusion with the enemy, and not without edulcorating to the point of distortion the obscenities found therein, framed its conclusion according to what has since Versailles become the customary apologetic template of the Allies:

> *The United States **accidentally** played an **important** role in the technical arming of Germany…Neither the military economists nor the corporations **seem to have realized** to the full extent what that meant*…Germans were brought to Detroit to learn the techniques of specialized production of components…The techniques

> learned in Detroit were eventually used to construct the dive-bombing Stukas…[104]

Thus, the meager evidence accessible suggests by itself that the American collaboration with the German military-industrial complex, through Weimar and the Nazi regime, was indeed intense and pervasive. The 'Dawes machine' inaugurated this determining phase of the incubation, in 1924, when the dynasts of the American Grid, egged on by Norman, set out to divide amongst themselves in a rational fashion the bond sales of Germany's giant industrial axes.

Morgan & Co. and Rockefeller, via Chase National promoted I. G. Farben and the German chemicals on Wall Street. Dillon & Read placed $70 million worth of debentures on behalf of the coal and steel concerns, such as Alfred Thyssen's Vereinigte Stahlwerke, which would serve as a Nazi slush fund,* and one of the prime founts of pig iron and heavy plate for the Third Reich. V. A. Harriman & Co., which merged with Brown Brothers in 1931, sponsored the electro-technical conglomerates.[105] As shall be seen, the revision of the Dawes Plan, the so-called Young Plan of 1929, would be named after a General Electric Co. officer, Owen Young. Young would be appointed thereafter as one of A.E.G's foreign directors. A.E.G., Germany's General Electric, the great *Konzern* founded by Rathenau's father, received under the Dawes Plan at least $35 million worth of loans. By 1933, at which time there was irrefutable evidence that it financed Hitler, A. E. G. was owned by its American counterpart G.E. to the extent of 30 per cent.[106]

No accident: Germany was being gradually, but steadily, rearmed, in keeping with the dictates of Versailles. Since 1924, the Anglo-Americans equipped what would become Hitler's war machine through well over 150 foreign long-term loans contracted in less than seven years:[107] the more thorough and elaborate the fitting, the more devastating the German Army, the bloodier the war, the more resounding the foregone victory of the Allies (and the defeat of Germans, who were being set up), and the more sweeping and permanent the Anglo-American conquest. There was neither greed nor treason behind the Dawes bailout, but solely the long-term objective of fitting a prospective enemy with a view to bringing him down in a fiery confrontation – a confrontation to be orchestrated at a later stage.

> With these American loans Germany was able to rebuild her industrial system to make it the second best in the world by a wide margin…and to pay reparations without either a balanced budget or a favorable balance of trade.[108]

> The great German machine, having been raised on borrowed capital to be the most powerful and the most efficient in Europe, was running on borrowed gas…Why were the Germans putting their own gas out of Germany for safe-keeping, in the banks of foreign countries?[109]

The Dawes bailout was in fact Germany's first Five-Year-Plan (1924-29) in the view of the forthcoming world war.

Throughout this critical quinquennium, Norman had been busily at work: to sustain at such a pace the flux of American money into Weimar had required of the Bank of England such financial acrobatics that only he, in the world, could have performed.

* See below, p. 298.

For Norman brought the foreign money in, and, when it was time to alter the political physiognomy of Germany, he took it out.

Britain's Grand Charade to Crash the New Gold Standard

Much underwater paddling had gone into opening the gates of the American feeder to Germany, and most of it conceived, organized and effected by Montagu Norman. The succession of his maneuvers punctuated each salient date of the inter-war period: he was the uncontested and unrivaled architect of Europe's downfall; the priest that expedited and turned to account the obscene degeneration of European civilization. With World War II, the Anglo-Americans came, saw and won, but before they did all that, Montagu Norman schemed –and *his* peculiar doings, unjustly misreckoned, remained so far the most astonishing feat of the great Anglo-American siege of the Land-mass, which had begun with the First World War.

As Germany underwent the Dawes transfusion, the path for the Allies was cleared: the mark was being made fully convertible into gold, and sterling might presently resume its ascent towards the old parity of $4.86.

So, in April 1924, the Dawes Plan, which in fact postponed the gravamen of the reparations transfers for some years, was announced, and from that moment onward, the pound rose without ever faltering again (graph. 2). In May, J. P. Morgan & Co. and the FRBNY communicated to Norman and associates that they were ready to grant their British counterpart generous lines of credit for defending the gold convertibility of sterling when it would come, which, they all anticipated, would be in early 1925. The British Treasury haggled a bit, and in the end they all agreed, reassured and confident. And then, the Norman/Strong tandem resumed its favorite game, that of the Bank Rates.

In July 1923 Norman had raised his rate from 3 to 4 per cent, thus sending the signal to New York that London was ready –ready to pull gold (graph 1). It took some time to allow the German debacle to run its course and set up Schacht for the bailout, but finally, New York responded by lowering its rate by two half-point reductions from 4 ½ in May 1924 to 3 percent in August. *The positions were inverted*; New York was presently below London. The plan, of course, was to attract lenders in London, the expensive money market, and borrowers in New York, the affordable one. The switch was of decisive importance. New York initiated thereby a policy of 'easy money': she swallowed at once conspicuous amounts of private and public paper-promises and injected cash in the economy, which was magnified by the lax credit routine of the commercial banks.[110] America was flush with cash, and London, the tighter market, pulled gold like a magnet. *Thus was sparked America's phenomenal stock exchange mania of the Roaring Twenties: it started in the late summer of 1924 to give Norman a hand in attracting gold to London*.[111]

But it was not until the great Dawes loan was floated in October that sterling began its final and decisive convergence to parity. The unbroken improvement from October (4.43 dollars per pound) to April (4.86) was made 'in the face of formidable adverse conditions': buttressed by the American Grid, the pound reached the yearned gold parity on 28 April 1925, even with a 'strongly negative merchandise balance'. It was in fact the *invisible balance* (capital imports) that did all the work in lifting the pound to the gold plateau.[112] Norman had had his way; there were no 'rules of the game' other than the particular ways of bending the Grid.

And so it was finally done: Britain returned to gold, at 1£ = $ 4. 86. Over thirty countries followed her example; the City of London was once more the clearing center of the world.

Upon closer inspection, however, a few attentive scholars came to notice that England's new 'gold standard' was rather peculiar. First of all, *gold virtually disappeared from circulation:*[113]: the note-holder *could not* under the terms of the new act convert his Bank of England note into gold at the Bank. And the latter was obliged to sell gold only in *amounts of 400 fine ounces*, that is 'for…not less than $8268 worth at a time':[114] gold was quietly dropped out from the public traffic, and confined to a special inner circuit accessible only to 'the big players'. What was Norman after? By excluding the possibility for the economy to transact in gold, and, most importantly, *hoard it* in times of crisis, he was removing from the system a buffer, which could have rendered its actions and reactions much more sluggish. Norman was calibrating the system to play a *fast* game.

Second, he *leveraged* this new gold circuit greatly by *imposing* upon all central banks presently tied to it to *keep part of their reserves in English pounds*, which was presently anchored to gold, and which London would proceed to invest on their behalf.[115]

On the one hand, this device of the gold-exchange diluted enormously the 'cover' for the standard as a whole, and thus predisposed the world system to an unprecedented inflationary swelling, and on the other, it preset the game for a catastrophic chain reaction, which should have started as soon as either of the two gold-currencies, the pound or the dollar, should have suffered a run for having been over-extended: if, for instance, London were to lose much gold, the pound would collapse, and if the pound collapsed, as most satellites were forced to hold large amounts of sterling as 'cover', the entire circuit would disintegrate.

Norman was playing for high stakes: he demanded a swift and momentous response from the set-up; he was literally assembling a time bomb, and the world, unawares, looked distractedly the other way.

> The banking structure of the modern world with its huge pyramid of deposits nominally convertible into gold on demand, and actually represented by assets that cannot be liquidated, *is full of dynamite*[116]

Third, the parity itself. No doubt, the pound at $4.86 was expensive. And Norman knew that well. Sterling at such a level was obviously not likely to pull British exports through, though it might certainly be counted on to strengthen England's vital produce imports and, far more important, her invisibles: overseas investment, shipping freight and *financial services*, all of which were denominated in sterling. Having conquered anew the position of world clearing center, London and the Empire might confidently expect to derive a rich source of revenue from the forthcoming magnified flux of foreign moneys in search of high interest –hence the importance of keeping the interest rate in London above New York's.

At last, in 1925, after a full decade in the temple, Norman was on top of his game; most of the industrialized world was on gold now, and the great financial carousel, strapped with dynamite, might be spun in motion. Truly, Norman had impressed the world; building against all odds this new, awesome machine that seemed to have brought the chances for world prosperity and cooperation to levels hitherto unimaginable. And he was feared.

His persona, as the events, corridor rumors, and legends had come by this time to incise it in the public fantasy, was a fair match to the enigma of his nature. Completely wedded to the Empire and the adored Bank –'his sole mistress', as he said—[117] he led a veritable monastic life, without company and friends worthy of the name.

> He had some fundamental dislikes…The French, Roman Catholics, Jews…An innate ruler with a profound distaste for so-called democracy…[118]

> Norman was a strange man whose mental look was one of suppressed hysteria... When he rebuilt the Bank of England, he constructed as a fortress prepared to defend itself against popular revolt, with the sacred gold reserves hidden in deep vaults below the level of underground waters which could be released to cover them by pressing a button on the governor's desk. For much of his life Norma rushed around the world in steamship, covering thousands of miles each years traveling incognito…under the assumed name of "Professor Skinner"…[119]

This was the individual that the French had to reckon with in 1926. Because he had laid eyes on them. Presently, the achievement of his plans had to pass through the French tangle. France was, in fact, the last of all big players, who was still not hooked onto the newly assembled gold standard.

Like Germany, France after the war was shaken by a violent inflation and an extraordinary flight of capital. In the early Twenties, because of the perennial uncertainty surrounding the German reparations, and the organized speculation against the franc at the time of the Ruhr invasion, the French absentees exported en masse a fabulous treasure, which they remitted for custody to New York, and especially London. Statistics measuring the magnitude of the outflow are as usual unavailable, but what seemed a certitude among bankers in the know, was that *it was far more significant than what had been the German export of capital a few years previously*.[120] Now, realizing what fugitive wealth had done to Germany in 1923, a few experts, lucid enough to appraise the situation for what it was, took fright and found the time to fire warnings to the outside world. On September 10, 1926, one of such dispirited omen-mongers, Swiss banker Felix Somary, put 2 and 2 together in a public lecture hosted by the University of Vienna.

'We now find ourselves', he began, 'at a provisional state of rest. Yet this is the calm before the tempest. How can we Europeans cope with a power such as the United States, who wields a surplus both on her trade and capital account? The only way out is for America to keep on extending short-term-credits. Never has an economic cycle initiated under such hazardous conditions as the bailouts of Austria and Germany. Beware, America is the strongest protectionist of the world. She will bolt her door when Europe will come knocking with her wares for export. And if today the United States must lend to keep the system afloat, this cheap money policy cannot but usher in a Gargantuan stock exchange bubble. What if all the French refugee capital, which is now being invested from New York by its American custodians, is suddenly repatriated? That will set off the collapse. Therefore, only the immediate withdrawal of French funds from their foreign shelters and the peremptory abolition of the new gold standard can prevent a stock exchange boom from developing. For if both movements were to unravel during an upswing, or in the midst of an American crisis, the dimension of the catastrophe that would befall Europe would be unimaginable'.[121]

The great 1929 Wall Street crash was thus fully anticipated by a common practitioner of the Grid in 1926. Which is to say that Norman could by no means have failed to envision the eventuality himself, especially in the light of the 1920 crunch, which *he* had wrought.

As for the French expatriated capitals, timing, as Somary intuited, was of the essence. Norman, who was keenly alert to the potential of such funds, could scarcely afford to yield to France any form of control, albeit a tangential one, over the fate of Germany, who was now fed vital money from America. A mass recall of French gold from London and new York, on terms other than Norman's, could have indeed wrecked the new gold standard, and swept the momentum from under the Wall Street lending bonanza. So, the money had to be repatriated to France immediately, *but through London*, and in ways congruent with the Governor's plans.

At once, in the summer of 1926, the Empire dispatched its human spiders to spin the web round France.

On July 29, 1926 at eleven sharp, Norman crept in the Banque de France to face his opposite, Emile Moreau. The Frenchman was somewhat uneasy; he had been told that Norman was '*très dur en affaires et très rusé*': Moreau knew he was coming face to face with the 'best governor in the world'.[122]

Not before speaking ill of the Jews, yet passionately of his Bank and Great Britain, to whom he wished the domination of the world, Norman urged Moreau to join the 'Bankers' club', by readying himself as quickly as possible to convert the franc at a fixed rate under the new gold standard. [123]

A few weeks later, in August, the Agent General for the reparations, Parker Gilbert, met the French President, Raymond Poincaré, and the two cut a deal. For the first three years, the installments which France owed to America for the war credits, would be subtracted from the larger Dawes payments which Germany presently owed to France. Britain and America nodded. On the sly, the three parties had thus revised the Dawes Plan *to link war debts and reparations*.[124] Poincaré was triumphant –the accord would keep him in power: he had made France safe for the investors again.[125] The Banque was advised to prepare itself for a major absorption of francs from abroad.

All of a sudden, in the second half of 1926, a wave of capital returned to the French motherland. The Banque de France swallowed these foreign moneys and printed francs galore, in exchange. Its foreign reserves swelled to extraordinary heights. The franc left the doldrums behind, appreciated rapidly, and became the object of a frantic, international speculation, which was systematically organized from London. The latest rumor was that 'speculators from Berlin' borrowed pounds in London, and sold the pounds in Paris for francs. Paris deposited these pounds in London, where they were lent anew, and so on.[126] But the truth was that the chief speculators on the franc were British financiers.[127] Which leads one to infer that Norman, 'the trusted confidant of the whole City',[128] was, in fact, allowing the London market to feed the French with oodles of sterling.

Feeding the French, until these in May 1927, with their mouths full, and fearing a disruptive appreciation of their currency, *demanded to convert some of their enormous sterling reserves in gold*. And that was exactly what Norman was waiting for.

Though his biographers were always fond to recount that there was 'calculation in the face…[this] character with a thousand and one disguises…chose to wear',[129] the reader, however, is never told on which occasions Norman was supposed to have performed these extraordinary feats of dissimulation. There is reason to surmise that May 1927 was one such remarkable instance.

Feigning unspeakable distress at the French conversion of £1.5 million into gold on 19 May, 1927, Norman rushed a week later to Paris with an adjutant to confront Moreau. The latter rehashed peevishly his argument against speculation, and defiantly dug his heels in by telling Norman that France was playing by the book, and that such a conversion (of sterling into gold) was the least Britain should expect since her imperial return to gold two years ago: London, sentenced Moreau, should now raise its rate to defend its gold. Norman retorted that there would be a public outcry if he did that.[130] The British Governor then proceeded to explain that London's monetary market was a high precision mechanism, perfectly gauged to lubricate the British economy; any abnormal tampering with this device would be insufferable; an unwarranted and disproportionate withdrawal of gold from London would topple the entire system. Moreover, Norman went on, it was impossible to spot the source of the speculation; speculators were faceless: Paris had power over London, Norman declared, but London had none over third parties. Finally, with such high rates in Paris and the continual allurement of an appreciating franc, capital affluence to France was simply unstoppable. Paris, Norman concluded, should lower her rate.[131]

Framed to inflate the French Governor's self-importance, and corroborate France's newfound feeling of financial allure, the lines of Norman were cleverly crafted, and effective. He had told Moreau that England was at France's mercy. Which was not true, as wasn't true a single word of his entire act.

Officially France and England had reached a stalemate in May; neither party agreed to alter its rate, though they signed a truce of sorts whereby Moreau, sufficiently cajoled, forbore for the nonce to withdraw more gold from London, and directed his requirements to New York, whereas Norman willingly tweaked upwards by an eighth of a percent point some rather insignificant short-term rate in London: 'I shouldn't want to throw the pound sterling in the dirt', Moreau signed off on his diary, gloating and diligent, 'that would earn us the justified reproach of Ben Strong and the Americans'.[132] He had been completely fooled.

From the start, Norman operated deliberately with a 'very slender gold reserve', that is, with a cover rarely larger than 2-3 per cent of the country's total money supply.[133] With a gold base spread so thin, any incoming monetary mass of substantial magnitude, such as the repatriation of French capitals, likely to be satisfied, at least in part, in gold might be assuredly counted on to rattle the system. Which was precisely the effect Norman sought from the sudden reversal of French money transiting in London. ***He*** was the one encouraging the speculation against the franc; besides, he felt neither awkwardness in cohabiting with 1.2 million unemployed, nor inhibition in raising the rate to 7 per cent when necessary: he was afraid of no riot. All of which bespoke, instead, of his intention to obtain something altogether different from this maneuver.

> …He somehow managed to get a great number and a great variety of people to do just what he wanted them to do, although very often they did not want to do it...He could mobilise, in effect, an army out of the ground, and he did so, time and again.[134]

And that was to persuade his companion Benjamin Strong in New York to postpone the tightening that was in the offing, the measure being necessary in the United States to cool the bustling activity on the stock exchange, which of late had become too audacious. Norman presented the stalemate with Paris as a question of life and death for the new gold standard, and begged Strong to come to his succor. A conference was immediately arranged in July 1927 in Long Island; Norman, Schacht, Strong and Charles Rist, former Law Professor and second-in-command at the Banque de France, attended. The result was, at first glance, a rather inconspicuous dip in the Federal Reserve's rate from 4 to 3 ½ percent in August of 1927. New York was one full point below London (graph 1).

But this apparently innocuous cheapening of money in New York, coupled with more paper-swallowing on the part of the Federal Reserve was the turning point of the inter-war period. This second boost, compounded with the much ampler, and still effective, inflationary push of late 1924,[135] would trigger Wall Street's infamous wild ride to the Faustian heights of September 1929.

> It appears the Federal Reserve Board has permitted a speculative spree, which was already out of hand by August 1928, to grow progressively worse until July 1929.[136]

To help Britain 'survive' temporarily the contrived 'French shock', America, through cash injections and the mechanism of the interest differential, released excess gold reserves (overall ca. 17 per cent) from her enormous chest once more.

> In the first half of 1925 [the United States] lost 140 million dollars worth of gold, and in the 14 months which ended in May 1928, [she] lost nearly 540 million dollars. The first outflow furnished much of the basis for the new gold currency of Germany and the second for that of France.[137]

The aim of this British game of ricochet was always the same: namely, to keep the 'Dawes machine' running. The American policy of cheap money renewed in August '27 went in fact to sustain the continuous flotation of German securities in New York, and strengthen thereby the Reichsmark in terms of the dollar.[138] Another brilliant move deftly executed.

And so the Anglo-Americans replayed what they had done in 1924: the borrowers borrowed money in New York, the cheaper market, and wired the proceeds to London to earn the higher rate. U.S. private short-term funds moved to London in considerable volume. Norman's gold reserves were plenteous again, and until June 1928, the sterling-dollar exchange averaged the highest for any of the years 1924-1931.[139] American gold had started to flow in since the previous December. And certain interests in the United States, including the Federal Reserve Bank of Chicago, protested: they did not understand why New York had to overheat the American economy for the sake of Norman –for no amount of mystification, anywhere, succeeded in convincing anyone that it was otherwise.[140] It was at this time that Benjamin Strong earned that semi-insult of being the 'mental annex' of the British Governor.[141] Yet for all of the hue and cry, the step was not reversed.

The relief brought to London, however, was merely temporary. Already in July the tide began to turn. It so happened that, because of the revamped speculation, short-time money on Wall Street was shooting to levels so recklessly high (20 per cent) that the funds that had hitherto been flowing from New York to London and the rest of Europe, were being recalled in New York by the fatter baits. And the dismal news for Norman was that, therefor, money was being pulled out of Germany as well.

In brief, the world economy was back to the late 1919 scenario, yet cumbered by a mass of credit several orders of magnitude greater; it barreled along like a file of overloaded wagons, pulled by the Anglo-American locomotive along a roller coaster without any safeguards.

The Federal Reserve had a mind to kill the euphoria softly, by accompanying it, as it were. The American bankers set out to ration credit gradually, hoping that the bubble would eventually run out of steam. Thus, in July, the Federal Reserve in New York raised the rate to 5 percent, half-a-point above London, but well below the market rates prevailing on Wall Street. *With this move, the game changed radically*; the June 1924 switch between London and New York was reversed (graph 1). As in 1920, this was for Norman the summons to intervene peremptorily: the crash had to come as soon as possible, or else sterling, and the Empire's policies, would be weakened to the point of impotence: Norman could not watch Wall Street send Britain into a spin by sucking out of it all the gold amassed previously in London.

At this time, in late 1928, things worsened for Britain; she kept losing gold to Wall Street, and, again, to France. Norman wrote to Schacht: 'The Jews continue day by day to take away our gold'.[142] As if it hadn't been enough, his partner Strong died in October of tuberculosis.

It yet took Norman the time to wink, before George Harrison, Strong's successor, fell for him; not long after the replacement, Harrison's fellow directors could already be heard hashing that the new boss 'lived and breathed for Norman'.[143] The British Governor courted his new prey immediately, entreating him to engage without delay in that chase of the Rates that Norman and the former Fed Governor had run in 1920: i.e., to prick the bubble for the sake of Britain's gold. And as proof of his resolve, Norman took the plunge and raised Bank Rate on February 7, 1929, by a full point to 5 ½ per cent (graph 1), awaiting immediate reaction in New York.

But New York lingered. There was a communication breakdown within the American Grid; Harrison and the Anglophiles in New York wanted to play the game and step the rate up forthwith to 6 per cent, but the seven-member Federal Board, a separate supervisory board presiding in Washington, seemed to have lost all sense of New York's doings and intentions. Between February and August 1929, fearful of affecting business unfavorably, the Board denied for ten consecutive times New York's request for raising the Rate to 6 percent.[144] Finally, on August 9, 1929, in a delirious convergence of policy, inspired by diametrically opposed objectives –the Board interpreting the measure as an ***expansive*** and accommodating gesture towards the market, and New York willing it instead as the coveted, and ***restrictive*** response to an anxious Norman—, the Federal Reserve finally set its rate at 6 percent.

At last, with the green light from New York, on September 26, 1929, a week after the all-time peak for share prices,[145] Norman raised his rate to 6 ½ percent and yanked the air out of the bubble. 'Then, suddenly', wrote the Financial Editor of the *New York Times*, Alexander Dana Noyes, 'the great decline began…No one seemed able to explain the source of the huge selling orders which poured in…Possibly London…started indiscriminate foreign selling'.[146] London sold and gold flowed back to England.

> It is certain that …the raise of the London bank Rate to 6 ½ percent…hastened the downfall of speculation in the United States…[and] precipitated the stock exchange crisis and slump of October.[147]

It was done: Norman arrested America's long season of profits, 1914-1929, fifteen years of avid dreams and opulence, suggested by Britain, and inspired by the ravage of Europe. Afterwards the rates of London and New York, like twined serpents in a caduceus of folly, came rolling down as well (graph 1): the world economy was crippled by debt contracted during the boom at exorbitant rates, and the central banks' crunch had so depressed prices as to send the money scampering underground: it was locked up in the vaults –the rates decreased, banks lent no more, the Grid shut close. A crisis, the likes of which no one had ever experienced, had begun. Begun as a mere repetition of the Norman/Strong sabotage of 1920.

The ratio of gold to total credit in America had sunk to less than 7 per cent in April 1929, the lowest point in her history; when the crash hit her the paralysis was extensive[148]: through bank failures the American elite had burnt a third of her Grid to play this British game. It would cost the United States ten years to come out of the Depression. The Dawes bailout, barring a momentary lending spurt to a comatose Germany in 1930, was *finished*: Americans wanted their money back. *Suddenly and completely they ceased to buy German securities*.[149]

Thereafter, Norman waited. It was a slow process of strangulation that he observed at home, and especially in Germany. There, the clutches of the Dawes machine, without the 'stream', had brought political despair to such a pitch that in March 1931 Germany and Austria, Norman's two bailed-out creatures, announced their intention to unite into a customs union (*Zollverein*) as a means to overcome the commercial drought of Middle-Europe. But on May 11, Austria's leading bank, the Creditanstalt suffered a run and, with it, the whole Austrian banking system, collapsed. How it collapsed remains a mystery to this day. The documents available mention some obscure and 'intricate system of cross-deposits between [the Austrian Grid] and a number of American and British banks', which had been set up in 1929 –'tainted money' in the words of Norman. What the role of such a system might have been in this connection is still unknown.[150] Three weeks later, the rupture spread to Germany. The Reichsbank accused foreigners of an external run, while the Federal Reserve laid the blame on the Germans for exporting their money. Either way, the money fled, and Norman knew that Britain was next.

He had been planning and preparing for this fateful juncture a long time since –at least for the six years that it had taken him to assemble his new gold standard. For indeed it had been constructed for self-disintegration; the aggregate of his Bank's policies throughout this period proved it irrefutably.

Whenever he had lost gold, Norman was the first to violate the 'rules of the game' by expanding the money supply, instead of restricting it:[151] between 1924 and 1929, a significant percentage of the foreign moneys that Norman had attracted with the trick of the interest differential between London and New York, *was taken in by the London joint-stock banks and re-lent to Germany continually in excess of their resources, with the full knowledge of the Governor*.[152] In the process, the London banks relaxed their cover and made it twice as thin as customary. An inquiry into such inexplicable 'oversights' was solicited after the 1931 rout, but nothing came of it.[153]

Shortly after Germany's complete financial collapse, in mid-July, *a run was launched against sterling*.

On the 13th an ad hoc committee set up to report on the health of British banking completed its work: the 'Macmillan Report', which bared the lewd foreign indebtedness of British banks, was released with suspiciously good timing and no explanation whatever of the 'large figures' published therein.[154] Alarmed by the Report and the crisis in Berlin, the central banks of France, Holland, Switzerland and Belgium liquidated between the 16th and the 29th a small part of their bulky sterling balances in London, and took away with them £32 million in gold –about 20 per cent of Norman's stock. What followed from that moment on was a tale from an alien realm.

Harrison cabled Norman immediately; 'Can you throw light on this?' he asked. 'I cannot explain this drop…', answered Norman.[155] The situation, to say the least, was serious, and it called for drastic measures. Such as tightening the rate to 7, or 8 per cent, as Norman conceded on July 23, when speaking again with Harrison over the phone.[156] So what did the Bank of England finally opt for? ***She raised on the 29th her rate from 3 ½ to 4 ½ per cent, when 10 could have 'pulled money from the moon'…A meager point***, as if it were bandaging a hemorrhage with a gossamer gauze. Bankers round the world were flabbergasted by London's reaction: unforgivably inane, they thought.

On the same day, Norman, 'feeling queer', eventually collapsed during a meeting at the Treasury.[157] He abandoned the helm at the Bank. Adducing health complications, and without allowing his name to appear on the passenger list[158], he boarded a fast liner to Quebec on August 15th. His Deputy, Ernest Harvey, was now in charge, and ***duly instructed***. Washington and Paris immediately came forth with offers of help. Harvey floated the decoy of England's government deficit: 'that', he averred, 'is the source of our trouble, and it really can't be helped'. No one believed him, and fellow international bankers insisted on assisting the 'Old Lady of Threadneedle Street'.* On July 31, Paris and New York extended credits to London to defend sterling, to use it as ammunition, as it were, wherewith the Bank of England might repurchase the pounds that speculation was dumping in London. On August 5, the pound kept skidding, and more gold was forfeited, but Harvey did not draw on the new Franco-American credits. The French wondered what on earth he was doing; Harvey replied that he had let the gold go to teach his colleagues at the Treasury a lesson; to prod them to balance the budget. Moret, the new French Governor could not believe his ears, 'he was appalled'.[159]

Harvey, undaunted, and slathering falsehood upon falsehood, professed further that the source of the run remained inexplicable, and that British citizens were only marginally involved in it, when in truth suspicion ran high in the banking community that the British financiers of the City were the chief speculators against their own currency.[160] The pound continued to sag, and eventually the Franco-American credits were blown away in a matter of days. The French and the Americans, not daring to doubt the good faith of England, persisted and offered in late August two additional lines of credit, in dollars and francs, for a last-ditch defense of the pound. The Bank of England, instead of keeping the new ammunition close at hand and firing it from her own defense lines, dispatched it to two minor forts, the British Overseas Bank and the Anglo-International Bank; and these two banks, by the frequency and magnitude of their purchases of pounds, revealed to the speculation what never ought to have been revealed: i.e., the amount of the reserves themselves.[161] Everyone guessed that the money was on tap, so to speak, and that it wouldn't last long –and so it was wasted in little time.

* The moniker of the Bank of England.

Mid-September dealt sterling the coup de grace: no one knows for sure, but the last fatal withdrawal appears to come by way of the Netherlands[162], though not on official account[163]: the central bankers stayed put. France had nothing to do with this last raid. Given the size of her sterling account, she stood only to lose tremendously from a depreciation of the British currency; she actually bought sterling at this time. The same applied to the Dutch central bank. So who really mugged the Old Lady?

The evidence is 'scanty', regret the historians.[164]

Therefore, this had to have been the work of that gray blob conveniently referred to as 'speculation' or 'the market' –ghost privateers, who in September ransacked the cellars of the Bank some more, thus bringing the total loss in the last two months to £200 million in gold and deposits.[165] But being it known that:

> In its operations with…foreign exchanges balances, the Bank of England was continuously preoccupied by the need for secrecy and discretion. That its efforts in this respect were generally successful…is beyond doubt, as the paucity of press, and even Treasury, guesses as to the extent of its activities indicates…Public knowledge of the fact that the Bank held hidden reserves, at times as large as its published, would have made execution of its…policy impossible…In its market operations, [the Bank] deliberately disguised itself. Through a number accounts at the Federal Reserve Bank of New York, it prevented banks paying in funds or receiving them from knowing their ultimate destination or origin.[166]

Being it know that these were the methods of the Old Lady, the temptation to conjecture that it was the Bank itself that led the speculation from under the cover of its secret foreign accounts by way of short sales and like operations, with a view to igniting a herd movement, which it then deviously lured into its own gold sanctum through 'the line of least resistance' –i.e., an absurdly low rate of discount at 4 ½ and the weak defense of the two small banks in September; the temptation to conjecture this much is rather irresistible.

Then, on September 15th, 500 sailors mutinied at Invergordon, Scotland, because of a pay cut. The meretricious press jumped at the story and blared out in the open that the Royal Navy was in disarray. The organs of the Empire were now diffusing the psychosis that Britain was on the verge of a precipice. Norman from Nova Scotia concerted by wire with Harvey the bill draft that would abrogate the 1925 Gold Act. On the 18th the defense of sterling was given up. A day out from Quebec, on the homeward voyage, Norman received a cable from his men at the Bank: 'Old Lady goes off on Monday'.

On Monday, September 21st, before a speechless world, Britain suspended gold payments.

Within four weeks eighteen countries would depart from the gold standard. To disperse the loitering speculation, the Bank hiked up the Rate at 6 per cent, where it would stay for the next four months (graph 1).

At first, it seemed one of those incomprehensible losses, which the Britishers didn't quite know whether they were to hail or mourn. Though soon, 'the politicians, the press, and the public seemed to arrive at the belief that those who…had driven Britain off gold had forced a ***blessing*** upon her government against her will'.[167]

But it wasn't over: the Empire's stewards, to make it perfect, achieved this *pièce extraordinaire* with a solemn finale. Snowden, the chief of the Treasury and 'Norman's devoted slave',[168] in officiating the funeral of the Gold Standard in the House of Commons, appealed with maudlin majesty 'to everyone not to use words…at this moment, which will make things more difficult'. The few skeptics in the House, lest they should crack a 'joke in the cathedral' if they spoke up, kept their mouths shut.[169]

On September 23, Norman docked in Liverpool; on the 28th he was back at the Bank. Allegedly, 'he was utterly bowled over on discovering of the terrible truth'.[170] Clearly, Harvey and the others 'had lost their heads'.[171]

So, here was Montagu Norman, a controversial, and patently ill man in charge of the financial arm of the world's Empire until late July '31 –*nine years* past the customary term—, who relinquished the command at the most critical juncture of Britain's recent financial history, and in his absence deputized his most delicate duties to a team of semi-incompetents. As a result, the Empire's currency fell so steeply as to sever the connection to the gold anchor, and hurl thereafter the world economy down a spiral slide into hell. The Navy mutinied, and upon his return the Governor was pilloried like a monumental loser by a wolfish mob of cartoonists. The pound depreciated by 30 per cent, and the losses of the French and Dutch central banks realized on their sterling balances numbered in the billions of dollars. The outrage of the Hollanders at the double cross was such that they contemplated a legal suit versus the Bank of England; the Dutch Governor, Vissering, was fired on the spot.

What did the Empire do? Did it fire Norman? Clément Moret, the French Governor, for having held on to his pounds, 'was decorated as a Knight of the British Empire in October'.[172] *And Norman was confirmed governor for yet the first of thirteen additional years.*

What of prices and gold? Did prices in Britain, as all feared, shot up because of sterling's fall? No; England, most had seemed to forget, did not suffer the imposition of world prices, *but dictated them herself*: copper, freights, wheat, cotton, fats, jute, rubber and tin were all quoted on the Empire's markets. It was the others that would have to adjust.[173]

And Gold? Here is the evolution of the Bank's stocks of the metal between 1925 and 1935 (in million of dollars of 1929 content)[174]:

1925	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935
695	729	737	748	710	718	588	583	928	935	973

By late 1932, not only was the gold hoard refurbished, *but it had even increased*. How? Why, by crushing the Indian serf, of course, with the exact same device employed ten years before. Between 1928 and 1930, the Indian Government was ordered to dump a third of its surplus stocks of silver (90 million ounces), thus causing a diminution in price of the metal of 50 per cent.[175] In 1931, India's Imperial Bank, besieged by the furious protests of India's farmers and merchants, was enjoined to peg the rate at 6 per cent; and even the Bank's director, hand-picked by Norman, remonstrated. The monetary stringency was coupled with a rupee, whose artificial expensiveness in terms of gold, was kept maddeningly high, all of which conspired, in keeping with Norman's expressed wish, to depress local prices and cause a devastating 'money famine'.[176] Despite the turmoil and the fiery indignation of Gandhi, Indians had no alternative but to discharge their debts with the Empire by exhuming their stashes of metal.[177] Which: gold, *sona*, or silver, *chandi*? Since *chandi* had been rendered nearly worthless, they could only pay England with *sona*. 'Distress sales' they were called. After September 1931, and for the rest of the decade, a torrent of gold welled out of India to irrigate the coffers of the City – the flow was steady and intense. Viceroy Willingdon, ecstatic, reported from the Raj: '…Indians are disgorging gold…'[178]

September 1931 was indeed 'the watershed of the interwar period'. The British betrayal signaled the 'end of the international financial system established in the 1920's and contributed substantially to the disruption of the international economy.'[179]

While he had been setting up the Gold Standard, Norman, in view of its forthcoming breakdown, had pulled the sub-Grid of the British Empire together: South Africa, Canada, India, New Zealand and Australia were financially re-engineered, either with the creation of a Bank, or the modernization of the existing one. September 1931 thus found the Empire financially compact, and self-sufficient, with a vast, closed market sheltered by Imperial Preference and soon to be walled by a 20 per cent tariff (October 1932).

In October 1933, at a dinner hosted by the Lord Mayor at the Mansion House, Winston Churchill lifted a glass to the health of the Governor: 'British banks', he orated, 'have shown themselves capable of a…resourcefulness which has been a definite contributory factor in the strength of the country.'[Cheers]. Norman capped it off with an Arab proverb: 'The dogs may bark but the caravan moves on'.[180]

The Last Scheme of Kurt von Schleicher and the End of Weimar

In December 1924 Hitler was amnestied. He had been in prison since November 12, 1923 –thirteen months of detention in all. He told the faithful Hess that it would take him five years to resume control of the Party.[181] He was provident: five years that coincided with the course of the Dawes bailout. There was no more question of coups and the like; this time, he swore, he would gain power by 'legal means'. Röhm, the SA commander, had no patience for such dilatory tactics: he gave up and shipped to Bolivia to train the local army. Meanwhile, the Anglo-American services had been watching Hitler with interest since 1922.[182]

Ebert, Weimar's first President, died in 1925, and in March new presidential elections were scheduled. The Nazis threw their slender weight behind the chief strategist of WWI, the ex-general Ludendorff, who found himself competing against his former other half: Field Marshal Hindenburg. Hindenburg carried the day with nearly 15 million votes, and his alter ego, Ludendorff, the reckless gambler to whom Hindenburg truly owed his fame, garnered a humiliating 1 per cent of the people's sympathy: he was finished, and Hitler, deep down, was quite satisfied to be rid of this cumbrous, antiquated piece of furniture.

But the measure of the electoral rout gave a fair idea of the Nazis' overall prostration. Until 1927, Hitler suffered moreover from the handicap that the Bavarian government had barred him from making public speeches; Prussia would hold out until 1928. The Golden Years had shut 'the drummer' up. So, unable to speak, he delegated the organization of the Party to the zealous Left Wing of the Northwest, which was led by the capable organizers, Gregor and Otto Strasser. Veterans of the Great War and

Freikorps volunteers, the Strasser brothers incarnated the anti-capitalist current of Germany's petty bourgeoisie, a movement that hearkened back to late-Renaissance German utopianism, for which land was conceived as inalienable and protected by a 'peasant aristocracy', industry segmented into guilds, and national union achieved by a federations of self-governed cantons. *A federated Germany, in the view of the Strassers, meant a federated Europe, and an anti-British alliance of free workers across Eurasia.* There was no trace of the religious racialism of the Hitlerites in the Strassers' outlook.

In 1926, on the occasion of the *Fürstenenteignung*, a motion introduced by the Communists to demand the immediate expropriation of princely estates for public redistribution, Hitler and Strasser clashed for the first time. The latter, who wanted to second the Communists, was also campaigning for an *alliance with the East*, and widespread socialization at home: the very antipodes of the Hitlerite strategy. Hitler called a meeting in Bamberg on February 14, 1926, and lambasted Strasser before the Party's vanguard, deriding, moreover, the Strasser line as '*Spielerei* (pie in the sky)'.[183] Strasser was no match for the Führer; even Strasser's young assistant, Josef Goebbels, who had been full of pugnacious hope about the confrontation, was dismayed by his boss's performance. In fact, he was bewitched by Hitler, the halo, the bodyguards and the caravan of expensive limousines that motored him around. The club-footed Goebbels jumped the fence to rejoin Hitler, who dispatched him to Berlin as the NSDAP's new *Gauleiter* (district leader), with the composite task of smashing the Reds, luring the working class to Nazism, and ousting the Strasserites from the capital. Gregor Strasser hung his head and fell back within the ranks, while Otto remained defiant. It was just a matter of time before Hitler would sacrifice the Left Wing entirely; it was altogether a foreign body within the Party, which might have mobilized dissent, but was not committed to waging a European war. A war, which, for Hitler, was the sine qua non for fashioning the empire of the swastika. And to fight the war, the princely estates, the Grid, absentee power, and the heavy industry, for the time being, should have stayed right where they were. On this occasion, because the German Democratic Party had, it too, ranged itself temporarily 'against the protection of private property', Governor Schacht gave up his party membership in a huff.[184] The Führer and the banker drew a small step closer to each other. The motion of the Communists was defeated.

The Litmus test of Gregor Strasser's recruiting effort came with the national elections of 1928, in which the NSDAP scored a miserable 2.6 per cent of the vote, 809.000 voices. The marginalization of the movement might have been suitably blamed on Strasser by Hitler and his Munich retinue, but selling Nazism ever as the receptacle of brutal malcontent, especially during the fat years of the American lending feast, could not but yield null results. And the Hitlerites were aware of it. It was misery they needed, as in 1923, and Montagu Norman would not tarry long before setting them loose upon the Fatherland.

When in 1928 Prussia lifted its ban on the public appearance of the Nazi leader, whom Weimar no longer seemed to fear, Wall Street happened to be slowly withdrawing its credits from Germany; Hitler was about to be summoned to the stage once more –five years after his release, five years since the foreign overhaul of the German economy.

> Firmly moved forward by the strange certainty of its *Führer* Adolf Hitler that the decisive breakthrough was near, the NSDAP had meanwhile completed its organisational battle preparations, as if it had prior information about the impending crisis.[185]

In all, and without counting the abominable Zeitgeist of the Modern Era, three were the clans that contributed to the Nazi seizure power: Anglo-American finance, the USSR and the Vatican –the first two designedly, the third less so.

With the Wall Street Crash of October 1929, which boon the Nazi organ, the *Völkischer Beobachter,* did not even bother to mention, [186] and the severance of the Pound from gold in September 1931, Anglo-American finance interrupted the monetary transfusion to Germany, causing automatically, as shall be seen, the electoral success of the Nazis. In the same interval of time, as if faithfully aiding the plots of London, the Russian Soviets engineered within Germany a civil war to 'baptize' the freshly elected Hitlerite contingent.

The 1923-1924 biennium was indeed an historical divide: key personages that had accompanied the first phase of the German incubation in one capacity or another had all departed: Havenstein (December '23), Parvus Helphand (December '24), Helfferich (April '24), Wilson (February '24), and the cardinal of all professional revolutionaries, Lenin (January '24). The five years that followed the death of Lenin, Stalin employed to purge the Soviet Union of its 'true believers'. There was a group belonging to the old Leninist guard that still clung fanatically to the notion of 'permanent revolution'. Drunk with the blood and success achieved thus far upon the land that was once the czar's, men like Trotsky, in 1924, were still convinced of the World's imminent Revolution in the industrialized West: from Germany to America, via France. Trotsky was evidently drifting in an illusory world of his own, and this would not have been a complication for his rival Stalin, had it not been that the former was still 1) one of the symbols of the USSR, and 2), which was far more worrisome, *an exponent and leader of that group within the Soviets that was seeking a peaceful entente with the Socialist forces of Germany*.[187]

In 1927, after three years of demoniac intrigues, back-stabs, orchestral maneuvers, and Siberian confinement for his men, Trotsky was expelled from the politburo –he delivered his last speech parrying with a forearm a hail of inkwells, tumblers, books, insults, and other objects.[188] He went into exile in 1929.

Meanwhile, Stalin prepared his part of the German ambush, for the ultimate benefit of the Nazi gestation, during the Sixth Congress of the Communist International in Moscow, in 1928.

Already in 1925-26, the Russians had demanded the expulsion of all those leaders of the German Communist Party that had put their independence of thought above everything else. Afterwards Moscow had submitted the rest of the KPD to the 'leadership' of its tool, Ernst Thälmann: Stalin had no wish to see the German Communists prosper. From the 1925 purge onwards, he fielded Thälmann and the street fighters of the Red Front as a special shock troop of Soviet foils with which to intensify the clash with the SA. At the same time, the German Red jackals, upon orders from the Russian central, were instructed to fragment the German Left. By painting in its official rhetoric the drowsy Socialists of the SPD as 'Social Fascists', i.e., as an enemy, Moscow sought to confuse the electorate of the Left and prevent the formation of a solid proletarian dam –approximately 40 per cent of the vote between the SPD and the KPD— to the forthcoming Nazi onrush.[189]

> Throughout the ensuing years, down to and even after the Nazi take-over, [the line laid down in 1928 at the Comintern Congress] was never

> altered…Throughout this period, as the shadow of Nazi brutality and intimidation fell deeper and deeper over German political life, the attitude of the Communists toward the moderate opponents of Hitler remained undeviatingly hostile and destructive. It was clear that this aided the Nazis...Less than three months before Hitler's take-over, the Social Democrats in their despair, …appealed repeatedly to the Soviet embassy in Berlin to induce the German Communists to give them help against the Nazis...The blunt answer was given by the secretary of the embassy: 'Moscow was convinced that the road to a Soviet Germany lay through Hitler'. [190]

And then there were the Catholics –a whole third of the German population under Weimar. Hitler could not afford the luxury to alienate the absentee owners, nor could he outright repel the adepts of Rome with his racial gnosis, which, in its esoteric details, should only have been shared among the Nazi initiates. In religious matters, the stance advocated by the Party was one of neutrality.

In 1928, when the Dawes annuity was increased, Germany protested so violently that a new Committee, chaired this time by the General Electric director, Owen D. Young, was constituted to draw up the revision of the original bailout. Between February and June 1929, the clubs drafted in Paris the final installment of 'the merry-go-round of reparations of debts, the most preposterous episode in modern history':[191] this was the Young Plan. It was a direct sequel to the 1926 business with the French over the link between German payment and war remittances to the Allies. According to its terms, *Germany was to pay 59 slightly reduced installments until 1988*. Part of the burden was to be securitized, that is packaged and sold to private investors on the money markets of the West, so as to raise some cash pronto for the ever thirsty French, who in exchange promised to evacuate the Rhineland in 1930, five years before the original deadline imposed at Versailles. To assist in the task of selling the bonds a new private bank called the Bank for International Settlements was established in Switzerland at Basle. The Agent General was demobilized, and Germany was the mistress of her railroads once again. The Depression would cut short the life of such a plan to a mere year and a half.

As ***Reichsbankspräsident*** and financial expert of the German delegation, Schacht signed the Young Plan in June '29, but then, the ebb from New York began to sponge off the money from Germany. Foreseeing what lay ahead, Schacht probably panicked. He had to cut loose from the sinking ship. So in December, in the midst of the final round of negotiations for the new Plan, he troubled the waters by circulating an official letter, 'a bomb', in which he recanted his commitment adducing all manners of diplomatic and financial quibbles. The government, he claimed, had inserted late additions that violated the original document.[192] The effect in the financial community was so distasteful that the Finance Ministry recommended him to resign, which was precisely the egress Schacht was hoping to fish from his mischief. In March 1930, President Hindenburg, indignant for what seemed to him as a shameful 'mutiny before the enemy', [193] and not quite capable of fathoming the motives of this petulant Schacht, accepted the banker's resignation disdainfully.

Schacht, it is true, had attempted throughout his tenure as Weimar's Governor (1924-1929) to curb the extravagant borrowing of the municipalities, in vain, though he had clearly done absolutely nothing to interrupt the giant American transfer, pecuniary and technological, to the great industrial poles of Germany[194] –for good reason: this had been the objective of the prize essay he had submitted to Dulles in 1922. All in all, Norman and the clubs were delighted with him. He had done well. And they all surmised that it was not yet over for this resourceful hierodule of the great Grid, who presently retired cunningly to his estate in Brandenburg to watch from a distance how the story unfolded, while reading *Mein Kampf*.

Nineteen-thirty: with high finance wreaking havoc in the background, the Red Front in battle trim, and an open Nazi hand outstretched towards Catholicism, the crisis finally struck Germany with all the violence the savvy of men could muster.

Unemployment began to decimate the country. On paper, there were over three million jobless individuals by 1930. It was that story of ordinary despair that will bring many of them to suicide.

The Republic was finished: in March 1930, incapable to force through a hostile House a raise in the unemployment insurance, the last of Weimar's ghost cabinets fell. Thereafter, a conservative Catholic, Heinrich Brüning, was chosen by president Hindenburg as Weimar's next Chancellor. Brüning was bent on enforcing harsh decrees to balance the budget. Hoping to find some sort of coalition amenable to support his politics, he dissolved the Reichstag in July and called for new elections in September.

Then came the Nazi breakthrough: from 2.6, they jumped to 18.7 per cent of the vote –6.4 million voices. *After the Socialists (24.5 per cent), the Nazis came to rank as the Germany's second political force.* The Catholics wielded 15 per cent of the vote, The Communists, 13.5 per cent, whereas the Nationalists –the survivors of the Wilhelmine Reich— gradually dissolved themselves into insignificance; as a whole, they had attracted 47 per cent in 1924, 39 per cent in 1928, 24 per cent in 1930, and would fall to 10 percent in 1932.[195] By then the incubation was complete; the old guard would die from giving a painful birth to the Nazi movement. One-hundred-and-seven Nazi representatives paraded through the Reichstag on 13 October, 1930, nearly six years after Hitler had walked out of prison. Fully obedient to Moscow, armed and trained by agents of the Soviet secret police (the GPU), who filtered through the German borders with falsified passports, a million Red fighters whittled their bludgeons to welcome the new Nazi arrivals. Ready to brawl, Röhm shipped back home from Bolivia in January 1931.

So soon as the 'stream' of foreign money was drained out of Germany, all the trappings of the Allied bailout snapped closed upon her. 1) Since the Reichsbank Law of 1924 forbade the central bank from advancing cash to the Reich above a low statutory level, the federal and regional governments fell back upon the private commercial banks, begging them for money. The banks, lending upon canons of profitability, were not accommodating, and the few that were willing to purchase public bonds, reduced proportionately their engagements with the private sectors, exacerbating thus the monetary stringency, and unemployment.[196] 2) As in 1923, the German Grid was literally colonized by the Allied investors: *more than 50 per cent of all German bank deposits belonged to foreigners in 1930—*[197] this was money that would vaporize at the first sign of distress. 3) And, finally, the unshakable burden of the reparations impeded any freedom of financial initiative on the part of the Reich. The 'Dawes machine' had nailed Germany to the cross, right and proper.

When, in March 1931, Germany and Austria announced their desire to fashion through a customs union what was de facto the *Anschluss*[*]— a Greater German-speaking Reich under republican auspices—, mysteriously, vital funds were withdrawn in

[*] Germany's annexation of Austria.

sequence from Austria in May, and from Germany in June, shortly after the Brüning Cabinet published a new set of emergency decrees. These contemplated cuts in the salaries of government officials, public expenditure, and war pensions, and an increase in taxation –measures that fell under the caption of 'deflationary policies': all they effected was to reduce the money supply so as to keep it proportioned to the available hoard of gold and foreign exchange, which, incidentally, foreigners and German absentees, as in 1923, were swiftly exporting out of the country.

A few weeks after the aborted Anschluss, the United States, as predicted by Swiss banker Somary in 1926,* passed the Hawley-Smoot Tariff, which instituted the highest rates in American history, increasing duties on a number of products more than 20 per cent.

> After the engagement of the Anschluss, Germany was a city besieged, with the lines of supply all cut, and the resources of the defenders rigidly limited by a watchful foe…Voices raised on every hand celebrated the example of Samson, as indicating the only possible course for a desperate Germany. For deep in the Teutonic soul lies the ineradicable conviction that Germany will not fall alone, nor European civilization long survive her ruin.[198]

On June 20th, on the face of an unsightly hemorrhage of gold out of Germany, and the consequent disarray suffered by the leading banking establishments of the West, US President Hoover declared a general moratorium on reparations and debts for a year. The measure was designed to give the German economy some respite and prevent it from collapsing altogether. Four days later, after the entreats of Chancellor Brüning and Luther –the new Reichsbank Governor—, the French, American, and British central banks, in addition to the new Swiss institute, conceded an emergency loan to Germany: crumbs. The Germans begged for more. On July 9, Luther flew to London via Paris to implore the creditors to revive Weimar. Norman shook his head, as he had done eight years previously in the presence of Governor Havenstein; he empathized, but added that there was not much he could do at present; the issue, he concluded regretfully, was political rather than financial. In the meantime, Norman advised Luther to restrict credit further.[199] Evidently, Norman was resolved upon ousting the Brüning-Luther team from power by a maneuver of prolonged financial exhaustion. Already, after the fall of the Creditanstalt, the British Governor had told the media that the Austrian bank needed a 'foreign butcher', and that 'Schacht was the right type of butcher'.[200] Schacht was flattered, but by this time, he was 'taken': in fact, he had liked what he had read in ***Mein Kampf*** so much that in Januray '31 he had hooked up with the author himself to talk things over.

> It became unmistakably clear that, whereas French policy aimed to perpetuate the status quo, Norman…was working for a ***new order***.[201]

The financial shape of the 'new order' was delineated in the summer of 1931. In July, after the failure of several important banks and their rehabilitation at the public's expense, the most acute phase of the German crisis ended, but there was 'no return to "normal conditions".'[202] Tight exchange controls were introduced, along with the establishment of special banking consortia for rescuing the healthiest part of the starved economy. State control over the economic apparatus was significantly extended. This

* See above, pp, 265-266.

would be the system that the Nazis would inherit, and fuel their miraculous recovery therewith. Special Standstill Agreements were reached with the creditors on September 1, which froze within Germany $1.25 billion. Thirty percent of such frozen credits were British short-term assets; a fortnight thereafter began the final 'run' on sterling. Official unemployment in Germany rose to five million.

In October, after the world financial system had been disintegrated, officers of the Royal Air Force escorted Alfred Rosenberg, Hitler's theorist of the race, in a guided tour of the London clubs. Rosenberg encountered, amongst others, the director of *The Times*, Geoffrey Dawson, the editor of the *Daily Express* and Churchill's sidekick Lord Beaverbrook, the human spider himself, Norman, whom he indulged with anti-Semitic disquisitions, and the future great electors of the Nazis, the directors of the Schröder Bank.[203] This was a concern towering over a vast network of interests all over the world; its legal office in Wall Street was none other than Sullivan & Cromwell, where the Dulles brothers, John Foster, the lawyer of Versailles and future U.S. Secretary of State, and Allen, the Cold War chief of the CIA, had completed their apprenticeship.[204] Bruno von Schröder, the patriarch, had been one of the founding members in 1905 of the Anglo-German Union Club,[205] and his bank had come to belong to 'that small ring of London finance houses [that had] an acknowledged, if unwritten, claim to be represented…on the Court of the Bank of England'.[206] 'Since the war…Schröders had become the financial agents of Germany in London'.[207] From 1918 to 1945, the fiduciary of Schröders on the Court of the Bank of England was an individual by the name of Frank C. Tiarks. In a variety of posts and assignments, Tiarks had been involved with the 'German experiment' since its inception in 1918.[208]

For a while, the German government paid out the dole, but by the fall of 1931, the jobless were left to fend for themselves. The political troopers of all colors clashed repeatedly on the streets, the blood flowed. In this atmosphere, Hitler, as representative of Germany's novel mass movement, encountered on October 10 President Hindenburg (see graph 2). The timeliness of the encounter was simply extraordinary: ***a mere fortnight after the British disruption of the gold standard, the Nazis sought an audience with the Republic's president to make what was, in fact, their first legitimate bid to power***. And, from the Sea Powers' viewpoint, the preconditions to such an encounter could not have been more favorable: a new, dynamic nationalist leader face to face with the Ersatz-Kaiser Hindenburg, a war hero and resplendent symbol of the imperial epoch –'it is done', they must have thought.

And yet it wasn't. Hindenburg felt but the most profound revulsion for this 'Bohemian lance corporal'; he received, entertained, and dismissed the latter with iciest coolness. Germany resisted. Hindenburg remained solidly behind his Chancellor, Brüning.

Spited, Hitler joined the great anti-republican manifestation of the Right gathered on October 11 at Bad Harzburg, where the private armies of reaction were seen filing by supportive crowds and a pedestal of leaders, who presently included Schacht. The latter, in the guise of Hitler's officious economic councilor, could not contain the lust that made him utter a speech, a vile one, against the pathetic attempts of Luther –Schacht's successor at the Reichsbank— to salvage the situation.

Chancellor Brüning, by now ruled by decrees, invoking the 48th article of the Weimar Constitution, which enabled him to pass controversial ordinances above the head of the Reichstag: the collegial fashioning of laws in Germany had definitely ceased to function. The vexatious measures Brüning had published in July were enforced on

December 8, 1931, through one of such decrees. The Chancellor took a dangerous gamble: he aimed to disarm emotionally Germany's creditors by making pain at home ever more excruciating, hoping thence to obtain the cancellation of reparations, and launch thereafter a program of public works. In fact, he had no choice, much as the foreign creditors had no pity. Like Weimar, Brüning was doomed from the start.

Nineteen-thirty-two, the year of the electoral madness. Having completed his first seven-year term, Hindenburg was up for re-election in March. Hitler, after some hesitation, decided to challenge him. The Nazis spent much money for publicity, as well as for unprecedented plane flights advertised in the press under the slogan of 'Hitler over Germany'.[209] In the first round, Hindenburg polled 49.6, Hitler 30.1 per cent of the vote—a disappointment. Hindenburg was re-elected president with the second ballot. Given the violence of the street clashes that accompanied the election campaigns, the Brüning government, for fear of a civil war, banned Hitler's paramilitary corps: the SA and the SS were enjoined to disband.

Then Kurt von Schleicher slowly emerged from the mists of the ministerial backwaters. This was the 'field-gray eminence' whose shadow lurked behind every plot that had twisted the uneasy life of this wretched 'republic'.

Schleicher had begun his career of backstage puppeteer in Ludendorff's General Staff during the war by organizing the orderly retreat of the German forces; he had been the one negotiating with Ebert during the seditions of the German Soviets in 1918-19, and a coordinator of their suppression by the White corps; with von Seeckt in 1923 he had planned the state of emergency; and he had been one of the architects of the secret National-Bolshevik entente with the Trostkyites: a sharp brain, a sophisticated officer, enamored of his skills— which were out of the ordinary. That is all that is known. Scheleicher remains the true enigma of Weimar. No one's ever deciphered the man: 'a question mark with the epaulettes of a general', said Trotsky of the personage.[210]

From 1929 on, Schleicher, as head of the political office of the Reichswehr Ministry, had acted as the unofficial liaison between the army and the government.

On April 28, he invited Hitler to initiate a series of secret talks with a view to toppling Brüning, now known as the 'Hunger Chancellor' for having smashed the country and himself into a cul-de-sac. The plan was to lift the ban on the SA and dissolve the Parliament in return for temporary National Socialist tolerance of the new government. As straw-chancellor of the new government, Schleicher had selected a Catholic aristocrat, Franz von Papen, a rather unprepossessing gentleman of leisure, fond of horse riding and intrigue. Papen would lead a cabinet of barons maneuvered by Schleicher from behind the scenes in the view of the eventual economic rehabilitation of Germany. The 'Old Man' Hindenburg was persuaded, and on May 30th, 1932, Brüning fell. 'A hundred meters from the finish line', the latter would add, sorrowful.

In fact, in June, during the international conference gathered in Lausanne, now that the incubation was finished, the Allies at the suggestion of Britain terminated at long last the reparations scheme by demanding a symbolic lump sum of 3 billion marks, which Germany would never pay –Hitler would repudiate reparations in 1933. And Veblen was vindicated: the Germans had surrendered under that head approximately 10 per cent of their income until 1923, and nothing afterwards: all the money for that purpose had been borrowed, and would have never been repaid. The end of reparations ended war debts as well. Between 1918 and 1931, the United States recovered but 20 per cent of the total credits extended to the Allies.[211] Thereafter American legislation forbade token payments, and no one insisted on paying anything anymore –this was the last of it.

Between German loans and Allied credits, America had so far sunk 20 per cent of her 1914 GDP in this European adventure (ca. $40 Billion);[212] she would come collecting with WWII, and make the investment pay off after 1945.

Papen became chancellor since June, and the Parliament had just been dismissed. Germany geared up for the second electoral joust of the year. This time the Nazis gave their very best. Thousands of speakers rambling across the Fatherland, Hitler's outlandish airplane jaunts from one rostrum to another, radios ablare, vinyl records, marching bands, mounds of merchandise, reels rolling, swastika pins, a state-of-the-art propagandistic film shot by no less than XXth Fox,[213] towers of pamphlets, oceanic quilts of posters patching the walls of all cities and flags everywhere: a babylonian splash. It was now or never. Also thanks to the strong popular appeal of Gregor Strasser's economic program calling for land-reclaiming projects, rural settlements and public works to be funded by the somewhat magic suggestion of 'productive credit creation', which amounted to an insurrectional take-over of the Grid by the communal hordes of Germany's burghers, the NSDAP scored its record poll of 37.3 per cent of the votes on July 31, 1932: 13.7 million ballots.[214] This was the maximum Nazism would ever be able to capture by legal means – a significant share, for sure, though far short of the absolute majority. This was no *breakthrough*.

So soon as the ban on the SA was lifted in June, Reds and Brown-shirts tore each other into pieces; more than a hundred street killings were counted in a month, the wounded were three times as many. Goebbels wrote in his diary: 'We're headed straight for civil war, but the Wilhelmstrasse doesn't seem to notice'.

On August 10, Hitler met Hindenburg again, and bid for the chancellorship. Hitler told the president that he was not willing to join the present cabinet to play second fiddle to Papen, nor did he intend to waste energy searching for a supporting coalition in the Parliament. He too wanted to rule by decrees: all or nothing. Nothing, replied Hindenburg, brusque; his mistrust for Hitler was whole. Hitler seethed.

At this juncture, the puppet Papen severed the strings from Schleicher, and began to conspire on behalf of the Anglo-American cabal against his mastermind.[215] The horse-riding aristocrat expected to bend Hitler into obedience and domesticate him in a baronial cabinet by strangling his party financially with another election, in which, as Papen correctly intuited, Hitler was most likely to lose seats –by now, the people were weary of electoral campaigns, and promises unfulfilled. To carry this out Papen persuaded his absentees friends, bankers and industrialists, to stop their contributions to the Nazis.

For, in fact, who had paid for them ever since the beginning? According to one hideously humorous folk tale eagerly circulated, the Nazis financed themselves by way of rallies and contributions, in addition to the storm troopers' late endorsements of razor blades called ***Stürmer*** (stormer), and a brand of margarine named ***Kampf*** (battle).[216] Ten years of political activity all over the nation, and three technologically innovative, mass-publicized elections in a country half-bankrupt, funded by means of tickets, piddling donations and ***margarine***?

A more creditable version exposed by a first-class historian that had access for two years to classified documents alleged that Nazism from 1919 to 1923, the year of the putsch, had been financed by the secret funds of the Reichswehr (the army), and thereafter by German industrialists.[217] Industrialists, such as the steel magnate Fritz Thyssen, who began paying Hitler in 1931 by remitting funds to his deputy, Hess, via an account with a Dutch bank, which was interlocked with a Wall Street outfit called Union

Banking Corporation. This was a subsidiary of Harriman Brown Bros. that was managed by Prescott Bush.[218] In 1934 the foreign correspondent of the *Manchester Guardian* confirmed the widely diffused rumor that the bulk of Nazi funding was ***foreign*** in origin:

> …Hitler had large funds at his disposal, not obtained entirely from German sources. He got money from certain capitalist interests in foreign countries, who were attracted by his hostility to Soviet Russia, or by…his policy to increase the demand for armaments…International finance does not seem to be unfavorable to the Nazi regime.[219]

In September, Papen dissolved the Reichstag and new elections were scheduled for November 6. His hopes were realized: the Nazis lost 2 million votes—their percentage slid to 33.1 per cent. They were bankrupt, and losing momentum fast. But Papen himself foundered with the election: the Nationalist block, which he incarnated, suffered a disastrous decline; he and his barons were incapable of taming Germany's riot. The unemployed were now officially 6 million, and adding drifters and the undeclared, the new horde of vagabonds numbered approximately 9 million individuals, that is, about half of Germany's workers.[220] Here was the long-term effect of the 'Dawes machine', Montagu Norman's masterpiece. Stories of indescribable violence, street clashes, rural incest, and robbery made up the news of an ordinary day.

On November 19, Hitler, who was still in command of Germany's first political force, came knocking on Hindenburg's door to demand once again the president's mandate. And once again he was rebuffed. 'A cabinet led by you', Hindenburg told the Führer in all frankness, 'would develop necessarily into a party dictatorship with all the consequences for an extraordinary accentuation of the conflicts in the German people…For that, I cannot answer neither before my oath nor to my own conscience'. This rejection appeared final. In this hour Hitler was afraid –and utterly broke; he confided to Goebbels that if the movement collapsed, it would take him three minutes to blow his brains out, and that would be the end of it.[221]

Now was the time for the serpentine Schleicher to pull the wires of the last, decisive plot: baring is face, he went to Hindenburg and pleaded with the Old man to let him, the general, take the matter in his hands. With a shiver of disastrous forebodings, the Old Man consented, and on December 2, he appointed Schleicher Chancellor of the Reich, the last of the Weimar Republic.

On December 15, the general on the radio announced a public program of large-scale work-creating endeavors; he looked to the Left and sought to create a transversal alliance that cut across the Socialist unions, the Army and the Strasserite wing. It was a superb maneuver, a last sally which Germany conceived through one of her generals to save herself from the abyss, a true fruit of despair. On December 19, Schleicher received Maxim Litvinov, the Russian Foreign Minister, who showed himself exquisitely cordial.[222] But Litvinov was deceiving what the reactionary press was presently attacking as the dreaded 'Red General': in the first half of October Litvinov had already told Ivan Maisky, the freshly appointed Soviet ambassador to London, that the Nazis would soon come to power.[223]

In spite of all, Schleicher set his plan into motion: the post of vice-chancellor he offered to Strasser, and looked forward to tearing away the Left Wing onto his camp. And Strasser did not say no… The Parliament he would dissolve and prorogate the elections past the constitutional sixty-day limit –he trusted he would sway the old president, Hindenburg, to concede him that much. This would take care of the Nazis, whose ballot-box strength was rapidly waning. And if push came to shove, he would ready the army to engage the Hitlerites in a genuine civil war. Had this maneuver succeeded, by some evasive caprice of fate, Germany would probably have been saved.

To fend off this diversion, on 4 January 1933, Papen summoned Hitler to convene under cover of secrecy at the townhouse of Baron von Schröder, a partner in J. H. Stein of Cologne, the German appendix of Schröders. Kurt von Schröder, along with Schacht and other exponents of German big business, had signed in November 1932 a petition addressed to von Hindenburg, urging the president to appoint Hitler as chancellor.

During the pivotal synod of January 4th, Hitler, sobered by the cold shower at the polls, agreed to join a coalition government, which he had until now sternly refused, and to serve as the Quartet's spearhead –or rather, 'figurehead', in the intendment of Papen and friends— in overthrowing the republic.[224] From now on, Baron von Schröder and his syndicate of investors stood behind the debts of the Party: with the stroke of a pen, the absentees granted the Nazis a new set of keys to the Grid—they granted them unlimited 'credit'.[225] On January 17, Goebbels entered in his diary: 'The financial situation is suddenly improved'.

Simultaneously, asked by an American journalist at his country residence about the permanence of the Schleicher regime, Schacht responded, confident: 'three weeks'.[226]

Schleicher's spies found out about the hidden assembly, and the news of the Papen intrigue was leaked to the press. But everything conspired against the great conspirator. The Junkers and big business, let alone the absentees of the Grid, were all aggressively arrayed against Schleicher's collectivist measures. The Left, devouring herself, still spared some life to worry at his throat, while the Catholics were taking their cues from the ambassador of the Pope, Monsignor Eugenio Pacelli.[*] As head of the German nunciature for the entire duration of the Weimar regime, Pacelli had expended himself on a tireless hunt to wrest from each ***Land*** (German State) a collection of agreements between the Holy See and the ***Land***'s secular government, securing rights to a variety of catechumenal trademarks, such as doctrine, education and worship: the so-called 'concordats'. At this crossroads, in January 1933, jolted by the opportunity offered by the pious von Papen for clinching the much yearned concordat with the Reich, Pacelli prompted the German Catholic leaders to explore 'the possibility of at least a ***modus vivendi*** with all the Right, including the Nazis, in order to combat the danger from the Left' and the blasphemous Bolsheviks.[227]

Incredible as it all might appear, Weimar's two largest 'democratic' mass parties, the socialists (the SPD) and the Catholics, who together stood for 35 per cent of the electorate, which could have risen to 52 per cent with the added strength of the Communists –a full majority! —, feeling more menaced by Schleicher than by Hitler, joined hands to dethrone the Red General.[228]

Indeed, three weeks was what it took the Quartet, led by the Papen junta and backed by the conspicuous interference of foreign finance, to buy off, coax, and convert the rest of the establishment, especially its last standing bastion, the old Field Marshal Hindenburg, and obtain thereby the removal of Schleicher. The 'question mark with the epaulettes of a general' faded in less than two months; the president dismissed him on January 28th, 1933. Shortly thereafter, Schleicher was seen walking 'in a long oval around his room, whispering to himself, head half bent'.[229]

[*] The future pope Pius XII (1939-1958).

Of all the great actors, it was the army of the Reich the one least inclined to fight the next war –the irony of it all.

On January 30th, Hitler was sworn in as Chancellor. Papen was Vice-Chancellor in a Cabinet that numbered only two Nazis, Frick and Göring, the rest of them were blue-blooded aldermen.

Six months later to the day, Montagu Norman, without explaining and without excusing, vouched publicly for the first issue of Nazi debentures to be sold on the markets of London.[230] Three months previously, Schacht had been recalled by the Nazis to resume control of the Reichsbank.

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