The Financial Tsunami: The Financial Foundations of the American Century

By F. William Engdahl
Global Research, January 16, 2008
16 January 2008

Region: USA
Theme: Global Economy

Part II

[Part I The Financial Tsunami: Sub-Prime Mortgage Debt is but the Tip of the Iceberg]

The financial foundations of the American Century

The ongoing and deepening global financial crisis, nominally triggered in July 2007 by an event involving a small German bank holding securitized assets backed by USA sub-prime real estate mortgages, can best be understood as an essential part of an historical process dating back to the end of the Second World War—the rise and decline of the American Century.

The American Century, proudly proclaimed by *Time-Life* founder and establishment insider, Henry Luce in a famous 1941 *Life* magazine editorial, was built on the preeminent role of New York banks and Wall Street investment banks which had by then clearly replaced the City of London as the center of gravity of global finance. Luce's American Century was to be built in a far more calculated manner than the British Empire it replaced.1

A then top-secret Council on Foreign Relations postwar planning group, The War & Peace Studies Group, led by Johns Hopkins President and geo-political geographer, Isaiah Bowman, laid out a series of studies designed to lay the foundations of their postwar world, already beginning 1939, well before German tanks had rolled into Poland. The American Empire was to be an empire indeed. But it would not make the fatal mistake of the British or other European empires before, namely to be an empire of open colonial conquest with costly troops in permanent military occupation.

Instead, the American Century would be packaged and sold to the world, above all the emerging countries of Africa, Latin America and Asia, as the guardian of liberty, democracy. It would clothe itself as the foremost advocate of end to colonial rule, a stance which uniquely benefited the only major power without large colonies—namely, the United States.

The new American Century world was to be led by the champion of free trade everywhere, which also uniquely benefited the strongest economy in the early postwar years, the United States. It was a brilliant, if fatally flawed concept. As State Department planning head, George F. Kennan wrote in a confidential internal memo in 1948, “We have about 50% of the world's wealth but only 6.3% of its population...Our real task in the coming period is to devise a pattern of relationships which will permit us to maintain this position of disparity without positive detriment to our national security.” 2

The core of the War & Peace Studies, which were designed for and implemented by the US State Department after 1944, was to be the creation of a United Nations organization to replace the British-dominated League of Nations. A central part of that new UN organization, which would serve as the preserver of the US-friendly postwar status quo, was creation of what were originally referred to as the Bretton Woods institutions—the International Monetary Fund and the International Bank for Reconstruction and Development or World Bank.[3] The GATT multinational trade agreements were later added.

The US negotiators in Bretton Woods New Hampshire, led by US Treasury deputy Secretary Harry Dexter White, imposed a design on the IMF and World Bank which insured the two would remain essentially instruments of an "informal" US empire, an empire, initially based on credit, and later, after about 1973, on debt.

New York and the New York Federal Reserve Bank were the heart of the new empire in 1945. The United States held the overwhelming majority of world central bank monetary gold reserves. The postwar Bretton Woods Gold Exchange Standard uniquely benefited the role of the US dollar, then and even now world reserve currency.

All IMF member country currencies were to be fixed in value to the US dollar. In turn, the US dollar, but only the US dollar was fixed to a preset weight of gold at $35 per ounce of gold. At this fixed rate, foreign governments and central banks could exchange dollars for gold.

Bretton Woods established a system of payments based on the dollar, in which all currencies were defined in relation to the dollar. It was ingenious and uniquely favorable to the emerging financial power of New York, whose bankers actively shaped the final agreements.

In those days, in stark contrast to the present, the dollar was "as good as gold." The US currency was effectively the world currency, the standard to which every other currency was pegged. As the world's key currency, most international transactions were denominated in dollars.

Maintaining the role of the US dollar as world reserve currency has been the foremost pillar of the American Century since 1945, related to but more strategic even than US military superiority. How that dollar primacy has been maintained to now encompassed the history of countless postwar wars, financial warfare, debt crises, and threats of nuclear war to the present.

Important to place the emergence of the asset securitization revolution in global finance which is now impacting the world financial system in wave after wave of new shocks and dislocations, and to appreciate Alan Greenspan's substantial contribution to preserving the dominance of the dollar as world reserve well beyond the point the US economy ceased being the world's most productive industrial manufacturer, a brief review of the distinct phases in postwar dollar hegemony is useful.

The Golden Years of America's Century

The first phase, which we might call the postwar "golden years," saw the US emerge from the ashes of World War II as the unchallenged global economic Colossus. The US was *the* dominant world power; no one even came close. Over half of all international money transactions were financed in terms of dollar. The US produced more than half the world output. The US also owned about two thirds of the official gold reserves in the world in 1940.

When various European countries had reserve surpluses, they converted the surpluses into dollar reserves rather than gold because they could earn interest on dollar assets such as US Treasury bonds and dollars could always be converted into gold at $35 per ounce whenever it became necessary. The US dollar was at the center of this system.

American industry, led by General Motors, Ford and Chrysler Motors, the Big Three, were the world class leaders—no one was even close back then. US Steel (before it became USX), machine tool manufacture, aluminum, aircraft and related industries all set the benchmark for global excellence well into the 1950's.

Above all, the American oil giants—Mobil, Standard Oil of New Jersey, Texaco, Gulf Oil—those key companies dominated the unique energy source which was to become essential to unprecedented postwar growth rates in Europe, Japan and the rest of the postwar world—petroleum.4

In this early postwar period demand for dollars in the world to finance reconstruction was so great that the primary economic problem faced in the 1950's in Europe, Japan, South Korea and elsewhere was dollar shortages to finance imports of needed US capital equipment, its oil, its consumer products.

The US monetary gold stocks reached a record $24.6 billion in 1949, a huge sum that was comparable today to $211 billion, as gold from abroad poured into the US to pay the deficits in trade run up by foreign nations. New York, backed by gold reserves, was the unchallenged world banker.

This process began to deteriorate after a steep postwar recession in 1957-58. That recession should have been the alarm bell to US economic policy planners and industry that the unique period of profiting from the relative economic dislocation of a war-torn world was at its outer limits. Beginning 1957 the US economy was in need of a substantial regeneration, were it to remain globally competitive. That was not to happen.

By the time of the November 1967 British Sterling crisis, where the British Government was forced to violate IMF rules and devalue Sterling by 14% to maintain their economy amid severe recession, the focus turned on the fact that President Lyndon Johnson's Great Society and disastrous Vietnam War costs were causing the US government to run record budget deficits. The dollar was vulnerable to a run on US gold for the first time since the 1930's.

To hide the extent of those deficits, the Johnson Administration introduced creative accounting. For the first time the Budget director added the funds paid by working Americans into the Federal Social Security Trust Fund, a surplus that was to have been set aside to pay future retirement and related benefits for most Americans, to the Consolidated General Budget—a start to budget fakery which by the early years of the next century were to become huge.

Johnson also began manipulation of key government economic statistics used to compute everything from unemployment to inflation to GDP. The statistical manipulations, for reasons of obvious if fateful political opportunism, were endorsed silently by every succeeding Administration, the most egregious of them being the present Bush-Cheney Administration. 5

The 1971 dollar coup

Despite all the manipulations, by 1971 US monetary gold reserves had reached a precarious low as foreign trade surplus nations, led by France, had demanded payment in hard gold from the US Federal Reserve for their dollar surpluses. Reality could not so easily be manipulated as government statistics. Europe had emerged, along with Japan, as powerful trade surplus, modern, fast-growing economies.

The United States was becoming a vast rustbelt of decaying, obsolescent manufacture. The spin-doctors of Wall Street and select think-tanks such as the Ford and Rockefeller foundations came up with a linguistic euphemism calling it the "post industrial society," but linguistics did not change the reality. By the late 1960's America's once-booming industrial centers from Detroit to Pittsburgh to Chicago had become sprawling slums of decay, crime and rising unemployment.

Were the United States to lose its last gold reserves, the role of the dollar as unique world reserve currency—the pillar, along with US military superiority, of its postwar American Century imperium—would end abruptly.

To avert such a calamity, in August 1971 President Nixon huddled with his closest advisers, among them a US Treasury official named Paul Volcker, then Under-Secretary of the Treasury for International Monetary Affairs, and a long-time associate of David Rockefeller and the Rockefeller family.

Their task was to come up with a solution. Volcker's "solution" to the massive demand to redeem US dollars for gold was to be as simple as it was to prove destructive to world economic health.

Nixon announced to a startled world on August 15, 1971 that from that day, the United States would not longer honor its international treaty obligations under the Bretton Woods Agreement. Nixon had suspended convertibility of the dollar into gold. The New York Fed's Gold Discount Window was locked shut. World currencies went into a free float against an uncertain dollar, a so-called fiat currency. The dollar now was not backed by gold or even silver but only the "full faith and credit" of the US government, a commodity whose marketable value was beginning to be questioned.

Debt becomes the vehicle

Soon, with the implicit threat of withdrawing its nuclear shield as its prime persuasion, successive US Administrations realized that rather than depending on its role as the world's creditor as it had until 1971, the American Century could *theoretically* thrive as the world's greatest debtor, so long as American finance and the dollar dominated world finance.

As long as major US postwar satrapies [6] such as Japan, South Korea or Germany, were forced to depend on the US security umbrella, it was relatively simple to pressure their Treasuries into using their US dollar trade surpluses to buy US government debt. In the process, the US bond or debt markets became far and away the world's largest. Wall Street primary bond dealers were replacing Pittsburg steel and Detroit car manufacture as the "business of America."

To paraphrase the famous quip of former GM president Charles Wilson from the 1950's, the new mantra was, "What's good for Wall Street is good for America." It wasn't. The name financial "industry" even became commonplace, as if to designate money as the legitimate successor to production of real physical wealth in the economy.

Debt—dollar debt—was to be the vehicle for a new role of New York banks, led by David Rockefeller's Chase Manhattan and Walter Wriston's Citibank. Their idea was to extend hundreds of billions of dollars in newly acquired OPEC and other petrodollars, which they "persuaded" Saudi and other OPEC governments to bank their new oil surpluses in London or New York banks. Then those dollar deposits from OPEC, called by Henry Kissinger and others at the time, "petrodollars" went in the form of recycled loans to oil importing and dollar-starved Third World economies. 7

The Carter dollar confidence crisis

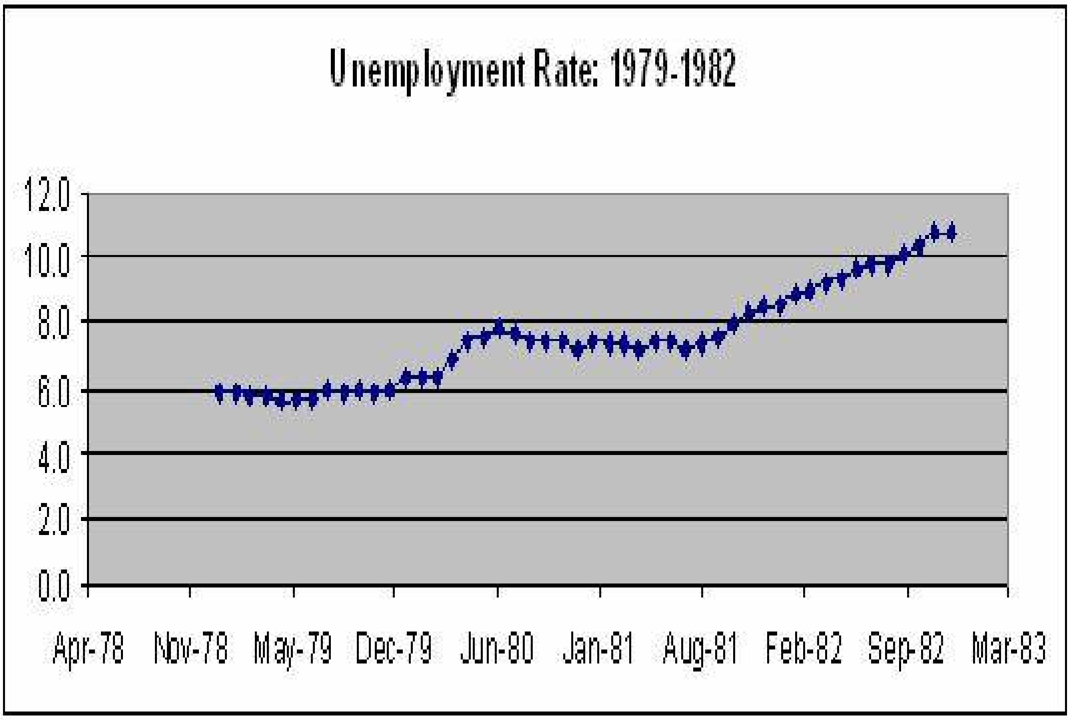
This second phase, the post-gold era, fuelled by the manipulated 1973 oil shock and US pressure on Saudi Arabia and OPEC to price oil exclusively in dollars, Kissinger's "petro-dollar recycling,"8 rolled along without major trouble until early 1979 when the dollar faced a major foreign sell-off during the end of the Jimmy Carter Presidency. The American Century faced one of its greatest challenges at that juncture. German, Japanese even Saudi Arabian central banks began dumping US Treasury holdings in what was called a loss of "confidence" in Carter's world leadership role.

In August 1979, to restore world "confidence" in the dollar, President Jimmy Carter, himself a hand-picked protégé of David Rockefeller's Trilateral Commission, was forced by the big New York banks, led by David Rockefeller's Chase Manhattan, to accept Paul Volcker, a protégé of Rockefeller's from Chase Manhattan Bank, as new Chairman of the Federal Reserve with an open mandate to do what was necessary to save the dollar as reserve currency.

On taking office, Volcker bluntly announced, "the standard of living for the average American has to decline." He was Rockefeller's hand-picked choice to save the New York financial markets and the dollar at the expense of the nation's welfare.

The Volcker 'shock therapy'

Volcker's shock therapy, begun in October 1979, lasted until August 1982. Interest rates shot through the roof to double digits. The US and world economies were plunged into a monster recession, the worst since World War II. Within a year, the prime rate had shot up to the unheard-of level of 21.5%, compared to an average of 7.6% for the fourteen previous years, a more than threefold rise in weeks. Official US unemployment peaked at 11%, while unofficially when those who simply had given up seeking work were counted, it was far higher.



Source: AngryBearBlogspot.com

The Shock Therapy of Volcker doubled US official unemployment

The Latin American debt crisis, an ominous foretaste of today's USA sub-prime crisis, erupted as a direct result of the Volcker shock. In August 1982 Mexico announced it could no longer pay in dollars the interest rate service on its staggering debt. It, as most of the Third World from Argentina to Brazil, from Nigeria to Congo, from Poland to Yugoslavia, had fallen for the New York banks' debt trap. The trap was in borrowing what amounted to recycled OPEC petrodollars invested in the major New York and London banks, the Eurodollar banks, which lent the dollars to desperate Third World borrowers initially at "floating rates" tied to London LIBOR rates.

When Libor rose some 300% within months as a result of the Volcker shock therapy, those debtor countries were unable to continue. The IMF was brought in and the greatest looting binge in world history, misnamed the Third World Debt Crisis, was on. Volcker's shock policy, predictably, triggered the crisis.

After seven years of relentlessly high interest rates by the Volcker Fed, sold to the gullible public as "squeezing inflation out of the US economy," by 1986 the internal state of the US economy was horrendous. Much of America came to resemble a Third World country, with its growing slums, double-digit unemployment and growing crime and drug addiction problems. A Federal Reserve study showed that 55% of all American families were net debtors. Federal budget deficits were running at then-unheard-of levels of more than $200 billion annually.

In reality, Volcker, a personal protégé of David Rockefeller from Rockefeller's Chase Manhattan Bank, had been sent to Washington to do one thing—save the dollar from a free fall collapse that threatened the role of the US dollar as global reserve currency.

That dollar reserve currency role was the hidden key to American financial power.

By letting US interest rates go through the roof, foreign investors flooded in to reap the gains by buying US bonds. Bonds were and are the heart of the financial system. Volcker's shock therapy for the economy meant soaring profits for the New York financial community.

Volcker succeeded only too well in his mission.

The dollar rose to all-time highs against the currencies of Germany, Japan, Canada and other countries from 1979 through the end of 1985. The over-valued US dollar made US manufactured exports prohibitively expensive on world markets and led to a dramatic decline in US industrial exports.

Already high interest rates from the Volcker Fed since October 1979 had led to a major decline in domestic construction, the ultimate ruin of the US automobile industry and with it, steel, as American manufacturers moved to outsource production offshore where the cost advantages were greater. Referring to Paul Volcker and his free-market backers inside the Reagan White House, Republican Robert O. Andersen, then chairman of Atlantic Richfield Oil Co. complained, "they've done more to dismantle American industry than any other group in history. And yet they go around saying everything is great. It's like the Wizard of Oz." 9

By early 1987 the nation's traditional mortgage banks, the Savings & Loan banks, were in a liquidity crisis that was to ultimately cost US Taxpayers hundreds of billions in government bailouts. The Congress' GAO watchdog agency declared that the Federal Savings & Loan Insurance Corporation, the guarantor against S&L bank panic, was insolvent. Yet under pressure from the S&Ls, huge bank losses were allowed to build as insolvent institutions were allowed to remain open and grow, allowing ever increasing losses to accumulate. The ultimate cost of the 1980's S&L debacle came to more than $160 billion. Some calculated real costs to the economy ran as high as $900 billion. Between 1986 and 1991, the number of new homes constructed dropped from 1.8 to 1 million, the lowest rate since World War II.

America's Second Revolution: the eyes on the Prize

Federal Reserve monetary policy has been typically misrepresented as a series of ad hoc pragmatic responses to recurring crises in post-war banking and finance. The reality is that it has faithfully followed a coherent hidden thread of policy that was first laid out in 1973 by the spokesman then for America's most powerful establishment family.

The policy was outlined in a little-noted book titled, ominously enough, "The Second American Revolution." It was written by John D. Rockefeller III, scion of the powerful Standard Oil and Chase Manhattan Bank empire, and, along with his three brothers—David, Nelson and Laurance—architect of the world arrangement after 1945 known as the American Century.

In his book, Rockefeller declared the establishment's determination to roll back concessions grudgingly granted by the wealthy and powerful during the Great Depression. Rockefeller issued the call in 1973, long before Jimmy Carter or Margaret Thatcher came to office to implement it. He called for a "deliberate, consistent, long-term policy to decentralize and privatize many government functions…to diffuse power throughout the society." 10 The latter was a witting deception as his intent was not to diffuse power, but just the opposite—to concentrate that economic and banking power into the hands of a tight-knit elite.

Privatization of essential and socially useful government functions that had been established often with great social agitation and political pressure during the difficult crises of the 1930's, was the Rockefeller agenda. In brief, it was the removal of Depression era government regulations on all aspects of economic and social life in America.

Above all, deregulation of Wall Street and financial markets was the goal, along with a radical reduction in the equalizing of wealth, as seen by Rockefeller and friends, inherent in such programs as Social Security. The George W. Bush "tax cuts for the wealthy" were just a continuation of a three decade agenda of the powerful establishment circles.

Hard as it may be to believe, all major US policy from the 1970's through the misnamed sub-prime crisis today, had a connecting continuous thread. Key Fed and Treasury and other US policymakers always held their "eyes on the Prize."

The "Prize" was untold financial gains to be won through a rollback of major concessions to the working blue collar and middle income Americans, concessions granted during the Great Depression by powerful establishment circles led by the Rockefeller and Morgan banking groups, to forestall a more radical revolt.

Social Security was one target for rollback. Financial deregulation and above all repeal of the 1933 Glass-Steagall Act, was another. Here a well-connected Wall Street banker named Alan Greenspan was to play the decisive role on behalf of the financial deregulation agenda in his tenure as Federal Reserve Chairman lasting from 1987 through 2006. Securitization of sub-prime or junk mortgages was to have been his crowning legacy. As it looks at this writing, it certainly will be, though perhaps not as he and others in Wall Street intended. It will more likely be a crown of disgrace.

(Part III will deal with the Greenspan creation of the securitization revolution and its subsequent demise)

NOTES

1 Luce, Henry, *The American Century*, reprinted in *The Ambiguous Legacy*, M. J. Hogan, ed. Cambridge, UK: Cambridge University Press, 1999.

2 Kennan, George F., 1948, "*PPS/23: Review of Current Trends in U.S. Foreign Policy*", Foreign Relations of the United States, Volume I.

3 New York Council on Foreign Relations, undated, The War & Peace Studies, http://www.cfr.org.

4 Engdahl, F. William, *A Century of War: Anglo-American Oil Politics and the New World Order*, London, Pluto Press, 2004, pp. 88-9.

5 For an excellent historical account of the impact of those systematic government statistical manipulations, see John Williams' http://www.shadowstats.com/. John has been tracking the manipulations for well over two decades, the only systematic attempt I know of.

6 The term "satrapy" to describe US relations with Japan, Germany and other postwar allies is used by Zbigniew Brzezinski in his book, *The Grand Chessboard: American Primacy and its Geostrategic Imperatives*, New York, Basic Books, 1997.

7 The best treatment of this new role of endless debt creation backed by US military power as the foundation for the US domination, see the excellent personal account in the remarkable work by Michael Hudson, *Super Imperialism: The Economic Strategy of American Empire*, London, Pluto Press, 2nd Ed.2003, www.michael-hudson.com. p.289 ff.

8 See Engdahl, op.cit., pp.130-141 for an unusual account of the role of then-Secretary of State Kissinger in the events leading to the 400% OPEC oil price rise in 1974.

9 Anderson, Robert O., cited in Greider, William, *Secrets of the Temple: How the Federal Reserve runs the country*, Simon & Schuster, New York, 1987, p. 648.

10 Rockefeller, John D. III, *The Second American Revolution*, Harper & Row, New York, 1973.

F. William Engdahl is the author of **A Century of War: Anglo-American Oil Politics and the New World Order**,Pluto Press. *His most recent book published by Global Research is* **Seeds of Destruction: The Hidden Agenda of Genetic Manipulation, www.**GlobalResearch.ca**.**

Contact at: *www.engdahl.oilgeopolitics.net*

Click to order William Engdahl's

Seeds of Destruction

F. William Engdahl is a leading analyst of the New World Order, author of the best-selling book on oil and geopolitics, A Century of War: Anglo-American Politics and the New World Order,' *His writings have been translated into more than a dozen languages.*

Reviews of Engdahl's *Seeds of Destruction*

> What is so frightening about Engdahl's vision of the world is that it is so real. Although our civilization has been built on humanistic ideals, in this new age of "free markets", everything– science, commerce, agriculture and even seeds– have become weapons in the hands of a few global corporation barons and their political fellow travelers. To achieve world domination, they no longer rely on bayonet-wielding soldiers. All they need is to control food production. (Dr. Arpad Pusztai, biochemist, formerly of the Rowett Research Institute Institute, Scotland)
>
> If you want to learn about the socio-political agenda –why biotech corporations insist on spreading GMO seeds around the World– you should read this carefully researched book. You will learn how these corporations want to achieve control over all mankind, and why we must resist… (Marijan Jost, Professor of Genetics, Krizevci, Croatia)
>
> The book reads like a murder mystery of an incredible dimension, in which four giant Anglo-American agribusiness conglomerates have no hesitation to use GMO to gain control over our very

means of subsistence… (Anton Moser, Professor of Biotechnology, Graz, Austria).

CLICK to order Engdahl's book

Seeds of Destruction
