

Private Banking Approach To A New Monetary System

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For obvious political reasons, the governments of the OECD capital-exporting nations lack the competence of perception and mobilized will to put the institutions of a new monetary system into place until after the collapse of the existing monetary system has occurred. The only practicable solution to this predicament is action by bankers and industrialists to establish the seed-crystal of a new world monetary system now, as a private banking venture.

Since world and national banking have been predominantly private banking ventures throughout the past seven centuries of European history, the feasibility and propriety of such an approach is clearly established. The problems to be considered are the following: (1) The strategic approach for transforming a private bank into a world central bank under present conditions of monetary crisis, (2) The distinctive policy requirements of such a bank, in contrast to most preceding national and world banking system ventures, (3) The policies governing global and national-sector financial reorganization. Those are the topics of this memorandum.

Initial Steps

The basic procedure is elementary. A private bank is launched as the seed-crystal for a new world central bank. This private bank incorporates all the "genetic" policy and related features of the needed world central bank. It launches its operation as a new private bank specializing in hard-currency credit in international trade.

The bank is formed in the standard way. A stock subscription is issued, with purchasers advancing a prescribed portion of the total value of their stock purchase, and covering the remainder of the purchase price with collateral. A portion of the capital advanced is used to purchase gold reserves.

The bank begins private banking operations by matching hard-commodity export and import delivery and production contracts for an initial group of client industrial and other suitable firms of the OECD countries. The immediate objective is to extend this into the area of multilateral hard-commodity production, trade and investment.

The more basic objective of the bank is to advance

from private banking to serve as a de facto common central bank for national banks and similar national and regional hard-commodity banking institutions.

There are three most notable features of this private-banking approach to the current monetary problem. First, *why this tactic is required*. Second, *why one particular venture of this type should succeed*. Third, *how this proposed private banking venture differs qualitatively from other banking alternatives* which might tend to arise almost spontaneously under conditions of monetary collapse.

On the first of these counts: It might be argued by some that the preferred course for establishing a new world banking facility is an initiative taken in conjunction with at least some governments. It is granted that such a course would be preferred if any appropriate such governments were prepared to act *in time*. Relevant OECD governments have demonstrated that all of them lack the combination of perception and effective political will to act in time. Therefore, *the private banking "seed-crystal" approach is the only practicable and urgent remedy*.

On the second of these three points: A significant number of bankers and industrialists are perceptive of the merits of a private-banking alternative, and will participate in operations of the first *competently grounded* such institution to be launched for this purpose. If 5-10 percent of the new hard-commodity export-import traffic of one or two OECD countries flows through such a bank, such a development would be more than sufficient to establish that bank as the seed-crystal for a new international central bank under present conditions of advanced collapse of the old monetary system.

On the third of these three points: Any well-informed banker would agree that the onset of a major monetary collapse compels well-advised bankers and industrialists to freeze large blocks of outstanding financial holdings and to pool hard-commodity credit resources for the purpose of stabilizing production and trade at a level sufficient for subsequent recovery efforts to begin. Insofar as the proposed private-banking measure incorporates such strategy, what is proposed is merely a matter of general professional knowledge.

The distinctive feature of the proposed private bank, unlike other alternatives, is that its credit policies are based on economic principles which eliminate the fundamental dysfunctional features of the old sterling and Bretton Woods system.

Despite such notable exceptions as Gresham, Colbert, and Hamilton, for seven centuries world banking has been dominated by *pre-capitalist policies* which have not

changed in essentials since the Bardi and Peruzzi of the thirteenth and fourteenth centuries. Although modern world banking has, in part, financed industrial and agricultural development, this productive use of credit has been accompanied by perpetuation of medieval practices of creating debt on the basis of the capitalization of ground-rent and pure speculations which are themselves ultimately the capitalization of anticipated ground-rent income. In fact, the medieval aspect was the dominant feature of both the old nineteenth and early twentieth century sterling system and the Bretton Woods system.

The distinctive feature of the economic policies of the proposed private bank is that the new world monetary system outlaws the use of national and world credit for capitalization of ground-rent and equivalent fictitious forms of wealth. *The credit and monetary policies of the bank require that the rate of growth of debt-service be slower than the expansion of national and global absolute profit in terms of tangible commodity outputs.*

This economic policy has a twofold consequence. First, it permits the unlimited safe expansion of credit to the upper limits determined by national and global productive potentialities. Second, once this principle is broadly understood, it provides the requisite subjective preconditions for the appropriate measures of credit-creation by governments.

The only subsumed, further limit on credit-issuance is, first, ordinary considerations of the technical competence of the investment and managerial competence of the borrower, and, second, the allowance of an actuarial factor of risk for failed productive performances and catastrophes.

Therefore, respecting the third of the three cited points, although the expected general banking reaction of a monetary collapse, as indicated, would be beneficial for the near-term, such measures, by themselves, would lead to a resumption of the same crippling defect of the bankrupted sterling and Bretton Woods systems. For that reason, the visible alternatives to the proposed action would contribute only limited benefits during the near term and would fail to solve the basic problem over the immediate and long term.

A Hamiltonian Credit Policy

It is advisable to specify the economic policies of the bank as *Hamiltonian*.

During his term as U.S. Secretary of the Treasury under President George Washington, Alexander Hamilton submitted two most notable reports to the U.S. Congress which became the fundamental monetary and economic policy of the U.S. republic until the 1828 election of Andrew Jackson. These are Hamilton's 1790 *Report on a National Bank*; and his 1791 *Report on Manufactures*.

The reasons for proposing the name, "Hamiltonian," for the proposed policies are principally as follows:

1. Hamilton's economic and related banking policies are correct for that time, and correct in principle — if inadequate in elaboration — for the present global situation.
2. Although British agents of influence (notably Martin

van Buren and August Belmont during the 1828 period) directed U.S. policy away from an industrial-capitalist, or Federalist-Whig policy from 1828 onward, the majority of the U.S. electorate is essentially characterized by American-Whig impulses, and will be most receptive to a proposed return to the American republic's industrial-capitalist traditions under conditions of monetary collapse.

3. The U.S. republic of the Federalist period, until 1828, is the only case of a nation consciously and effectively based on capitalist principles.
4. *The application of Hamiltonian policies in the OECD sector is the only basis for durable agreements of economic and monetary cooperation with the CMEA and developing nations.*

Although the Erasmanian (neo-platonic humanist) conceptions characterizing U.S. Federalist and Whig political and economic policies are also characteristic of Gresham, and the French *politiques*, Milton, and Colbert, Alexander Hamilton was the first thinker to solve the problem of rigorously defining the notion of wealth. Not only is that Hamilton's most singular accomplishment, but this conception of wealth, incorporated in an official 1791 transaction of the U.S. government, was the policy of the republic's government until 1828, and continued as the policy of the Whigs and the 1856-1865 Republican Party and Lincoln government.

It is unnecessary to restate Hamilton's fundamental discovery here, since that is available is his *Report on Manufactures*, which ought to be studied by every concerned person for reasons already stated. It is sufficient to identify the crucial feature of his proof concerning the nature of wealth, and to restate the argument in those modern, thermodynamical terms most relevant to the crucial feature of contemporary global economic and credit policies: high-energy technology development.

Hamilton defines the conception of wealth by attacking the pro-feudalist English and French versions of the Physiocratic doctrine. Using the number of individuals supported by an economy as his metric, Hamilton disproves completely both the doctrine of "natural wealth" and the associated doctrines of ground-rent. By the same argument he proves that the use of technological progress to increase the *productive power* of labor is uniquely the primary source of *absolute profit*, and hence of wealth.

Today, we can restate Hamilton's argument in more powerful terms. (cf. Levitt, Bardwell, Lerner, in *Fusion Energy Foundation Newsletter*, Vol.II, Nos. I-IV)

The development of the human species, since the Pleistocene, and, most notably, the emergence of neolithic cultures, is characterized by a secular trend of exponential increase in per capita energy-flux in both production and household consumption. The succession of technological modes of production associated with this progress is also characterized, in respect of the high points of development of each culture, by an increase in the ratio of effective free energy in total production. Hence, the process of human development is characteristically *negentropic*.

This progress has the following principal features.

Progress is effected in a two-fold way. The possibility of progress (*potential progress*) is *mediated* through individuals' *creative synthesis* of new technological discoveries. The question whether such discoveries become advances in production is a matter of the transmission and assimilation of such discoveries for general social practice. On this latter account, the development of social institutions and customs appropriate to the assimilation of discoveries for practice, and fostering of such discoveries is indispensable. On this account, social and political innovations are complementary to and interdependently related to technological discoveries.

Properly established national and world central banks are institutions through which technological progress is mediated.

The crucial test of what represents technological progress is the effect a class of technological innovations has on the *negentropic* increases in per capita energy-flux of societies. A simple increase in energy-flux might be merely an increase in effective costs; it is increases in per capita energy-flux and associated potentially higher rates of absolute profit of societies (increased free-energy rations) which uniquely satisfies the requirement of technological progress.

Thus, those scientific and related discoveries which represent the potential for such technological progress have the *physical quality* of negentropy.

In the first approximation, the assimilation of technological advances for social practice (technologically advanced productive skills, employment of such skills appropriately in production) represent increased *productive powers* of labor. (Hamilton's discovery in first approximation.)

The capability of population for generating and assimilating for practice a continuous advance in technology is the productive power of labor in its most general sense.

This capability of a population, which is the notion of *freedom* (as distinct from *toleration*) in the neo-Platonic outlook, is bounded by *necessity* in the following way.

Every technological mode of production defines a pre-existing spectrum of natural and man-made conditions as *resources*. This spectrum of resources is inherently *relatively* finite. Either it is a type of resource which is limited in absolute, accessible amount, or its depletion is reflected in terms of rising social cost of use *in terms of the existing technology*.

There is no possibility for the indefinite continuation of a society in a fixed technological mode. Attempting to slow population growth, or even reducing populations would, at hypothetical best, merely delay the problem. In actuality, all zero-growth methods necessarily worsen the problem, rather than postponing it.

The only solution is an increase in the "reducing power" of the society — higher per capita energy-flux in production and household consumption.

That by itself will not succeed. The average technology of society is raised in level by expansion of the mode of production, emphasizing relatively more-advanced technology in the allocations to expansion. Hence, the possibility of raising the average level of technology of society depends upon the free-energy ratio, the equivalent for that society of the rate of absolute profit. In terms of

capitalist and socialist industrial economies, the measure is the ratio of new productive capital formation to existing capital. Therefore, the only solution is to realize technological advances as higher rates in negentropy.

The result of this is to redefine the spectrum of required resources.

The problem is properly represented in terms of comparative rates. There is at each point a certain implicit rate of technological progress required to keep prime costs of production constant. That is the reference-rate. The actual negentropy effected through real capital formation in industry, extraction, and agriculture must be significantly higher than the reference rate — to the effect that the rate of absolute profit is rising.

By inversion of these relationships, we arrive at the following two crucial judgments:

1. The amount of tangible wealth output is not in itself a measure of wealth. It is the rate of absolute profit in total tangible commodity output that defines a total product as representing wealth.
2. It is the technological increase in the realized productive power of labor which is uniquely the source of wealth.

These judgments ought to be obvious, especially as wealth is studied in respect of proper policies for the long-term debt-generation of national and world central banking. The very fact of debt-service accumulations on long-term debt obliges us to consider current output as subordinate to the issue of the growth or the mass and ratio of absolute profit five, ten, twenty-five years hence. *It is the wealth-regenerative quality of the consumption of currently-produced tangible industrial and agricultural output which determines future ability to pay.*

Nominalists may choose to attach the word "wealth" to anything they choose in any manner in which they choose. There is, despite the opinion of such nominalists, only one definition of wealth which has any proper practical significance for the standpoint of the central banker viewing problems of long term investment. That required definition is the one given immediately above.

The Function of Credit

It is unnecessary to develop the case here for the essential role of banking in consolidating a diverse mass of short-term bills of exchange as indispensable to national and world production and trade on current account. Our task here is to develop a *non-monetarist* approach to intermediate-term and long-term credit.

The function of intermediate- and long-term credit ought to be too obvious to require qualification here; unfortunately, so much nonsense has been circulated by monetarist doctrines on this account that we must presume that some readers may have been affected by the dogma.

The problem solved by banking is what certain monetarists perceive to be the "buy-back" problem. Taking world industrial and agricultural production as a whole, the margin of commodities corresponding to net absolute profit (potentially investable margins) is intrinsically in excess of the purchasing power placed in circulation by

payment of prime and indirect costs against this commodity production. On this account, certain monetarists and others have argued that there is not sufficient purchasing power put into circulation by production to accomplish the circulation of that net absolute profit margin of commodity output.

This pseudo-problem is solved by the issuance of credit to seller and purchaser. The credit is issued against the value represented by the produced commodities and also against the regeneration of wealth accomplished by appropriate forms of consumption. In the final analysis, the credit is issued against the increased absolute profit of future production based on the consumption of that wealth.

As long as investment is governed by the principle of technological progress in the expansion of production, there is no other limit to the credit which can be created for this purpose. As long as the credit issued is limited to purchases for profitable production, including direct and indirect production payrolls, and to services organically integral to maintenance of production and labor, the expansion of credit can not be inflationary. On the contrary, under conditions of sustained general technological progress, credit expansion governed by these restrictions is deflationary.

The problems of credit are twofold: *economic* and *institutional*.

Intermediate-term credit can be generated in part out of allocations from depreciation accounts. In the general and total case, intermediate-term and long-term credit must derive, in national-account and international balances from absolute profit portions of total tangible commodity production, *or against idled or near-term expandable productive capacities which correspond to such an absolute profit margin.*

For regulating the economic side of the generation of intermediate-term and long-term credit, a tangible-output measure of national income accounts must be employed. Non-tangible "output" must be treated as indirect production costs, *not as net output*: e.g., services. After deducting the prime costs of national and global output (materials, capital maintenance, labor force costs), and deducting indirect costs apart from government, so we define a *net absolute profit*. This must be allocated in three sub-segments: (a) *government costs*, (b) *national capital formation*, (c) *capital export*.

The net of national and international intermediate-term and long-term credit issuance must be derived from the corresponding portions of net absolute profit of national economies.

Up to this point of our consideration of the matter, it makes no difference in principle whether the flows of absolute profit for capital formation flow into national and world banking through governments or private investors. It is the *institutional* side of the credit problem, rather than the economic side, which poses significant distinctions between public and private sources of capital.

Although private banking can develop the "seed-crystal" forms of general banking needs, the only general source of credit on the required scale is the creation of national banks, into which the public debt and revenues of national governments are deposited. In this

way, the fiscal activities of the national government create the reserve-basis for national monetary requirements. The correspondent relationship of other banks to such national banks provides the monetary system in fact.

Such national banks may be directly institutions of government, or may be private banks chartered by governments for this function.

The same principles apply, in an adjusted form, to international central banking institutions.

The proposed private bank may perform all the characteristic functions of a world central bank. It has a potentially unlimited capacity, limited only by its current payments and gold reserves, for discounting and rediscounting current bills of exchange. Its principal limitation in fact is that no syndicate of private resources can at this juncture muster sufficient capital for more than a relatively modest quantity of intermediate-term and long-term credit.

It is estimated that near-term net long-term capital flows from the combined OECD, CMEA and other capital-exporting nations to net-capital-importing developing nations will reach the range of an annual equivalent of between 100 and 200 billions 1976 dollars. The possibility of reaching such levels, of intermediate- and long-term net capital flows clearly depends upon both the appropriate developing of national banking in exporting and recipient nations, and of bringing levels of tangible output in the net-capital-exporting countries up to corresponding levels of net absolute profit.

The initially required levels of production in the net-capital-exporting nations can be reached by treating idled and near-term expandable productive capacities in industry, extraction and agriculture as the basis for issuance of government-endorsed credit, through national-banking methods.

Pending actions by governments, the private bank acting as a future international central bank should act in concert with bankers and manufacturers of the OECD nations, to the following effect: (1) *Create a pool of hard-commodity bills of exchange and existing hard-commodity capital credit in trade among OECD nations and with CMEA, OPEC and developing nations.* (2) *Work to develop relationships with suitable national-banking institutions in nations, and aid in creating the economic and credit climate favorable to the development of such national banking.* (3) *Take joint action to secure the operating integrity of new credit issued from appropriation on account of carried-forward financial indebtedness of nations.*

Also, a *hard-commodity-only credit issuance policy*. No new credit issued is to be granted or used for any other purpose than production and trade in tangible commodities, real capital formation in industry, extraction, energy production, agriculture and engineering services directly related to capital formation and production. No new credit issued is to be directly or indirectly applied to the payment of or refinancing of carried-forward financial indebtedness.

For the conditions of collapse of the Eurodollar market, and dysfunctioning of the International Monetary Fund, World Bank, or major national-sectoral financial institutions, it shall be the policy of the bankers

and others associated with the new bank to force financial reorganization of illiquid financial entities. The general policy for this purpose shall be "freezing" of most financial holdings not immediately relevant to either (a) public debt of national governments of net-capital exporting nations, (b) current hard-commodity production, trade, and capital formation.

For purposes of financial policy, the following general analysis of the problems created by monetary collapse is sufficient here.

1. It is understood that the monetary collapse will sort financial institutions into "winners" and "losers." This distinction will be determined *objectively* in favor of those financial institutions which have a relatively strong position in high-technology manufacturing, trade, energy production, public debt of national governments of OECD nations, and gold. Those institutions with large proportions of their holdings in speculative real-estate, the Eurodollar market, and debts of developing sector nations are objectively relatively unsalvageable. Among those financial institutions which are objectively defensible, the distinction between "winners" and "losers" will be determined *subjectively*. Those that adopt a posture of developing a new monetary system will survive, while those who oppose this will not.

This distinction between "winners" and "losers" is crucial. Hundreds of billions of current book values will be eliminated before the present monetary collapse is sorted out. It is essential — and to a large degree automatic — that the greatest burden will fall on some, the "losers," to strengthen the position of the survivors.

2. The public debt of national governments of net-capital exporting nations must be defended.
3. Viable industries and farms must be secured against liquidation, and must, as necessary, obtain necessary credit for materials, payrolls, services, maintenance, and capital formation under conditions of financial reorganization.
4. Although the ownership of a bank may be bankrupt, the service function performed by a bank as an institution of credit and deposit for industry, agriculture, commerce, and private households must be considered. Those service functions of essential institutions must be maintained, by making such facilities correspondents of national banks or emergency syndicates of viable banks under conditions of financial reorganization.
5. Householders' savings must be protected up to a reasonable ceiling amount of old deposits and *all new deposits fully protected*.
6. Essential public services must be maintained, whether publicly or privately owned.
7. All financial assets not meeting such requirements should be "frozen" or abandoned to the free market to find their own discounted level.

For example: equity in industry may fall to any price over the short or intermediate term, awaiting the effects of full-scale economic recovery. Under such known conditions, equities will tend to be frozen by holders,

pending favorable market conditions. This will be reinforced by a hard-commodity credit-issuance policy, which dries up funds for secondary markets of all types. The secondary markets will become distress-sale markets, through which free-market acts eliminate a substantial portion of presently inflated total book financial values.

For example: speculative real-estate and analogous holdings will be massively discounted in consequence of the sizeable portion of such holdings in the possession of "losers."

Overall, the required approach is one of "controlled panic." The productive sector and the current incomes and services of the general population must operate *in a protected area*, deflecting the weight of the collapse to those areas and institutions which are not essential to economic and monetary recovery.

National Currency Values

The value of a national currency is determined *in first approximation* by an interrelationship between two distinct measurements: *as a medium of commodity purchases for consumption, and the prevailing rate of profit on investment-purchases in that national currency sector.*

During the post-1966 period, most notably, the proper relationship between those two valuations has been increasingly obscured by the growing rate of financial transactions with respect to commodity transactions. The most commonplace illustration of this problem is the dismal practice of manipulating interest-rates as a way of creating artificial, short-term shifts in financial market currency valuations.

At this point, and under conditions of the developing monetary collapse, we are properly obliged to cut through all ordinary financial-market determination of national-currency values, and to foster negotiation of stable, fixed relative currency values based on economic, rather than short-term and intermediate-term financial considerations. This should be viewed as essential to putting the world economy on a firm gold reserve basis.

The basis for valuing currencies should be the weighted comparative value of the hard-commodity purchasing power of the currency over the most recent ten years. Under the conditions in which new national and international capital flows are dominated by hard-commodity credit-policies, the prevailing rate of profit on new capital formations in terms of such credit-policies should then become the gold-reserve basis for adjusting relative values of currencies.

During the intervening period, the actual international capital flows will be regulated on the basis of relative merits of individual investments in purchases from nations and capital formations within nations. Hence, the process of transition from one form of measurement to the other over the intermediate term of financial reorganization will become automatic toward the close of that term.

This applies most emphatically to the net-capital exporting nations.

The net-capital importing nations will operate on the basis of internationally-negotiated development pro-

grams. These negotiated development programs, plus case-by-case considerations of economic merit for each investment, will determine development-capital flows. Otherwise, since most of these nations are presently operating at a national absolute-profit deficit, and will continue to do so until development programs take some degree of effect, parity of world-commodity prices is the only equitable and effective means of immediately valuing the currencies of such nations.

An International Development Bank

The proposed bank must function as an international development bank. For the next quarter-century, the flow of long-term credit will be in net high-technology exports from the OECD and CMEA nations into the developing sector. Of this, 30 to 50 percent of long-term credit into the developing sector will be investments directly associated with fission, fusion and other MHD energy projects. The residue will be principally divided between agriculture and industrial development projects, including transition to high-technology extraction methods.

The bank must function as both the principal institution through which comprehensive regional and national development programs are negotiated, and must emphasize a major role by the bank's own staff of professionals in assisting in the development of projects and evaluating credit applications.

The failure of North-South negotiations to date is that under existing monetary order, none of the aspirations of the developing nations could have been satisfied in fact, even had the OECD nations agreed to those proposals. Since the policies of the dominant monetary institutions, the International Monetary Fund, the World Bank, the managers of the Eurodollar market, and the key New York City banks, have been operating on the basis of policies absolutely opposed to the most vital interests of all developing nations, since the OECD governments would not abandon those institutions, and since the developing-sector governments lacked, generally, the courage to challenge those institutions, North-South discussions have been a pathetic, impotent charade, with the net function of keeping the "little brownskinned friends" diverted in Paris and Geneva.

In the final analysis, the policies involved must be settled by governments. However, governments can not, one at a time, develop the required policies. A common meeting-place of the nations involved is required. Since the issue is long-term credit and related matters, the institution which functions as the international central bank is the proper meeting-ground and coordinating agency for developing the policy-alternatives submitted to governments for adoption.

There is no competent disagreement with the bank's required policies on this account.

The basis for industrial development is cheap and abundant nutrition. This means today, the reduction of the proportion of the labor-force engaged in agriculture toward between three to five percent of the total population, through application of modern energy-intensive agronomy and mechanization, converging upon U.S. and other modern nations' proven performance in this respect. The surplus generated by expansion of per-capita

and per-hectare agricultural productivities through modern technology provides the basis for shifting portions of the rural populations into urban industrial occupations.

Apart from a general potentiality for improvement of developing-sector agriculture, there are four most notable development projects to be targeted for large-scale concentration of development capital. The first is the Rio de la Plata region of South America. There, the development of the agricultural labor force and soil and related conditions assure a massively increased contribution to world food supplies in the intermediate term. This region is also a major region for industrial development. The second area is the Ganges-Brahmaputra and adjoining regions, for which the potentialities are already well-defined through several major and numerous supplementary studies. Here, as in the subcontinent of Asia as a whole, Japan could contribute a major development role. The third area is the Sahel, the potential grain-belt of Africa. The fourth is the Middle-East Fertile-Crescent restoration.

These and other agricultural projects should be defined for programmed credit-allocations.

Other urban and potential-urban centers within the developing sector represent potential for industrialization projects.

A mapping of the developing-sector nations and regions in these terms pinpoints the proper locations for developing fission-fusion-based new cities.

During the years immediately ahead, fission and fusion energy facilities must be projected in the gigawatt and higher ranges. Although existing and projected grids might hint at smaller unit-output capacities, such opinion is mistaken on several counts:

1. It is not necessary to operate a facility immediately at full capacity.
2. Loads can be distributed between peak electric-power-generation requirements and other applications.
3. In addition to the direct base capital costs of such facilities, irrespective of capacity, these installations involve regiments of technology. Thus, the proper approach is to make major power installations a new urban center, with universities, technical schools, and compatible industrial and research facilities. Such urban centers around fission-fusion facilities then serve as mediators of higher technological competence into the population as a whole.

At the other end of the high-technology pipeline, in the net-capital-exporting countries, the progress of high-technology development must be maintained.

Technological progress is effected through capital formation which spreads the most-advanced developed productive and related technologies. In this way the average level of technology of production is raised in successive, outflowing waves. This process is maintained by basic scientific research — most emphatically, physics, chemistry and biology — which, in turn, feeds large-scale production. At that point, a new technology is fully developed and can be generalized throughout the world.

The bank's scientific staff, through cooperation with

governments, industries, national banking institutions and others, must constantly shape proposals pertinent to the fostering of both basic scientific research and development of productive capabilities.

The general thrust of the bank's long-term credit policies must be to channel credit into a selected, hence relatively manageable few major projects and types of products, through which to generate the development of key industrial and agricultural projects in such a way as to produce by-product capital within national sectors through which other forms of development occur.

Socialist-Capitalist Interface

The OECD capital-exporting nations face the circumstance that the socialist countries preclude foreign investment-holdings in their national economies. Similarly, the developing-sector nations tend to discourage such investment forms, or prefer that such investments continue in that form for only a fixed term.

The proper function of an international central bank is to provide a suitable, equitable interface between the OECD capital-exporting and socialist and developing nations. The capital advanced to the socialist or developing nation takes the form of a contractual obligation of the recipient nation to the bank, usually through the recipient nation's national bank or a special banking agency created for that purpose. This obligation becomes, in turn, the bank's obligation to the capital-exporter, with recourse provided through national governments providing an "insurance fund" against defaults.

The mechanism for this is preferably as follows. National governments create a special category of national public debt (or use regular forms of national debt for this purpose), which creates long-term export credit for their nationals. This portion of debt is serviced out of tax revenues. That procedure conforms to the fact that added export earnings are taxable additions to national real incomes. The size of such portions of national debt obviously must be within the limits of the allocable portion of net absolute surplus.

This debt is matched by a combination of debts incurred to the international bank by recipient nations and payments from those nations. The accounts of the participating creditor and debtor nations are balanced for all nations as a whole through the international bank.

From the time of the establishment of the bank as the international central bank, financial and related operations involve two classes of financial holdings. The first class is financial accounts established under the new bank's operations. The second is financial accounts established outside the new bank's operations, chiefly 1977 and earlier-dated financial transactions. This distinction governs the procedure applicable to future nationalizations and related matters.

In the case of financial obligations incurred through the bank and its client firms and national banks, in the case of nationalization or similar action taken unilaterally by a nation, the nationalization or similar action shall be effected by converting the unpaid balance of the investment involved into debt to the international bank to the account of the national bank of the nation of the investor. In other cases, the value of the unpaid balance shall be negotiated between the parties, and the agreed amount may be then deposited as debt with the

international bank if the bank and the parties all agree to the terms and amount.

National Banking

Under the conditions determined by the present process of monetary collapse, no OECD or net-capital-importing developing nation will be able to escape from an internal economic depression without internal financial reorganization and a resort to national banking along Hamiltonian lines. It is not necessary for any power outside those nations to order such reorganization; internal economic misery will persist until the perception and political will to make such steps are mustered. It is however the proper duty of the bank and its associated community of bankers, industrialists and professionals to proffer helpful observations to its current and prospective clients on such matters.

The economic measures and related credit-policies broadly required are of the principled form already specified above. One further important — and somewhat painful — matter must be underlined.

The OECD nations, the United States most emphatically, are cursed with an accumulated imbalance in their actual and potential labor forces. Although the ratios vary from case to case, the ratio of the industrial and related operatives and farmers in the labor force is too low; there is an excess of administrative and so-called service employments, as well as accounted and hidden unemployment. The same principled problem exists although usually for a different overall combination of historical reasons in the developing nations.

The productive labor-force should be accounted as industrial and related operatives, farmers using modern technology, and scientists, engineers and related professionals of productive technology and related research. The object is to maximize this productive labor force as a percentile of the labor force and a whole.

Within that percentile, high technology should be applied toward the objective of bringing the agricultural labor force within five percent of the total labor force. (This may require a generation or slightly longer, depending upon the cultural level of the population.) Labor-intensive employment should be replaced by technologically advanced employed of higher energy-flux. The ratio of scientists, engineers and technicians per 1,000 industrial and related operatives should grow in proportion to emerging requirements of technological progress.

In the OECD countries, most notably the United States, the combination of official and hidden unemployment and excessive ratios of clerical and service workers represents both a major reservoir for increasing industrial employment, and a means for thus affecting a qualitative leap in the overall social productivity of the labor force. This is most urgent in the OECD nations, because of the vastly higher average productive powers of labor in those nations, signifying an increment per capita in global product significantly above that generally available per capita in the developing sector.

Such improvements in the social productivity of the labor force in the OECD nations represent a major potential source of the intermediate-term qualitative increases in net absolute profit wanted for global development.

While it should not be understood as intending to devalue the importance of properly developed liberal-arts instruction, it is most strongly recommended that OECD countries curtail the heretofore-existing emphasis on promoting university liberal arts instruction, in favor of emphasis on physics and biology and their complementary fields. An excessive emphasis on administration and social work-related professions has emerged in the OECD nations, especially since the early-1960s promotion of the destructive "post-industrial society" nonsense. This bias of the recent decade-and-a-half must be counteracted not only in careers-orientation, but to the purpose of stressing the importance of basic scientific progress and its applicable derivatives as the hallmark of an achieving identity.

Feasibility of Bank

Establishing a new world monetary system should be viewed as comparable to winning a major war. Both require a special competence of strategic command. It is for this reason that the writer proposed himself as heading up a team of bankers, industrialists and others to bring the proposed private bank into being.

Among the strata of bankers, industrialists and political figures closely studied for related purposes, especially during the recent three years, there exists a general capability of understanding and experience to build a force capable of carrying through this action. However, the special qualities of perception and will required to lead to that result are broadly wanting.

In the foregoing sections, and in the appended section summarizing the history of monetarism, together with other relevant materials written by the writer and his collaborators, there is summarized all that is necessary for defining a policy. However, that by itself is not sufficient. Pre-war strategic plans do not win wars — adequate forces under qualified strategists actually win the wars. The plan is necessary, as a way of shaping the development of the capabilities to be deployed. No plan can fully replace the responsibilities of command itself.

The Art of War — which, not accidentally, has precise equivalents in strategic political and related undertakings — consists in discovering the crucial flanks of the adversary's deployment. Neither in war nor in other dimensions of strategy are flanks defined in a way which can be portrayed on blackboards. A flank is any dimension of technology and deployment capabilities in which dimension one enjoys a decisive margin of advantage over the adversary. In general, all flanking maneuvers involve an element of strategic and tactical surprise to the adversary. They represent deploying one's forces in a way which the adversary either did not think feasible or whose implications he underrated.

The bank as projected can succeed, because the existing correlation of forces defines a "war-winning capability" for a qualified initiating force suitably led.

The adversary is the Rockefeller and related interest. This is an opponent which this writer knows very well, and against which he has tested and proven his war-winning potential over some years working at the greatest disadvantage in respect of physical resources. This Rockefeller machine is an adversary this writer can defeat given a significant force for that purpose.

At the same time, viewing other forces, none have shown a comparable war-winning capability of leadership in terms of perception, of political will, and resourcefulness in grasping and acting upon a discovered flanking opportunity.

Without the writer's involvement in the leadership of the effort, the private bank effort might succeed. With the writer's key role, it would almost certainly succeed.

Appendix:

MEMORANDUM ON MONETARISM

Contrary to the usual opinion, monetarism is a pre-capitalist conception and policy dating from approximately the thirteenth century, with the dominance of the Bardi and Peruzzi. The same distinctive monetarist policies of the Bardi were replicated by the Fuggers and their contemporaries, by the Amsterdam bankers, by the post-1688 City of London, the Barings and Rothschilds — especially the latter, and most recently, since Versailles and Bretton Woods, by the Rockefeller-dominated lower Manhattan financial circles.

This is not merely an historical fact, but an urgent practical consideration. The old sterling system and the Bretton Woods system collapsed in the same way — for the same essential reasons of policy error — as the Bardi and Fuggers, and the monetarist banking interests responsible for that mismanagement are today proposing the exact-same tragically-discredited methods employed by the Bardi, the Fuggers, and Hjalmar Schacht and his Nazi successors.

After seven centuries of such repeated experiences, it is past the time when that error was recognized and repudiated.

Using English history, to simplify the account, the breakdown of the feudal order is associated with the late-thirteenth century Edwardian reforms and their sequelae. It is not accidental that the enactment of those reforms coincided with the suppression of the Jews and the influx of "Lombard bankers" to London. The crucial point is the establishment of alienable ground-rent, and the capitalization of such alienable ground-rent payment to emerging governments as the basis for debts to Lombard and other international bankers.

The irony of this development is the fact that the roots of Italian and other banking houses of that period were the urban and related primitive manufacturing development fostered under the Hohenstaufens and other enlightened early Renaissance regimes. With the defeat of the Hohenstaufens and related events such as the Albigensian Crusade, the Guelph and allied bankers attached themselves to the cause of the pro-feudal faction against the humanist factions, and fostered a system of capitalized ground rent indebtedness leading directly and causally into the conditions of depletion of populations and agricultural production causing the mid-fourteenth century Black Death.

The inquisition against the Franciscan scientist Roger Bacon is exemplary and relevant. The humanist or Averroean or Avicennian current, to which the Hohenstaufens were attached in the main, emphasized

technological and related development and urban development. This faction's crushing through the Albigensian Crusade, the Guelph victory, and so forth, was accompanied by a wave of cannibalistic feudal adventures, financed by debts against alienated feudal ground rent.

The notorious case of the English debt exemplifies the procedure. The Bardi granted the English throne a debt to finance a dynastic military enterprise involving the throne of Naples. The initial security was the crown's wool income. This was refinanced on the basis of adding the sheep, as well as the wool as security, and refinanced again on the basis of adding the pastures as well as the sheep and the wool. This process continued to the point of the English debt-repudiation and the chain-reaction leading to the fall of the house of Bardi and Peruzzi.

In general the methods used in the efforts to secure debt-service payment against unpayable debt-balances incurring against capitalized ground rent were identical with the policies presently proposed by Messers. Witteveen, McNamara, David Rockefeller and the Brookings Institution. The existing relations of production on estates were savaged by labor-intensive methods to increase the ground-rent. This led to extensive displacement of serfs to estates and to a depletion of the maintenance of agricultural capital. The combination of the two sufficed to deplete the feudal populations to the point that those populations represented a forcing-medium for pandemics.

The measures of Hjalmar Schacht and his successors are identical.

The Bardi and their associates repeated the same procedures, especially during the sixteenth century. The French Jacqueries and the early sixteenth century Peasant War in southern Germany were direct results of the same austerity measures of attempted debt-service of pyramided refinanced debt employed by the Bardi, Peruzzi et al., and proposed by Witteveen et al. presently. This plague, continued by the Amsterdam bankers after the fall of the Fuggers, Antwerp et al., made the sixteenth and seventeenth centuries of almost uninterrupted war and social breakdown.

Then, beginning with the Amsterdam banking and its City of London offshoot (after 1688), the same business was continued on the same principles, but in an adjusted form. From 1828 onward, the same practices became increasingly influential in the United States, were consolidated in the establishment of the Federal Reserve System on a monetarist basis, and were institutionalized as an engine of a new horror at Versailles. Bretton Woods continued the miserable tradition.

The ground-rent conception focuses on the assumption that, first, profit is a matter of "buying cheap and selling dear," and that the margin for this exists in terms of existing modalities of technology. In effect, the profederal English and French Physiocratic notions of ground-rent, or "natural wealth" as the objective source of profit is the inherent tendency of all nominalist (i.e., monetarist) conceptions of wealth.

Monetarism is typified by secondary investment markets of speculation in real estates, secondary

speculative markets in equities, bonds, government debt, and so forth, and also the refinancing of previously-issued debt.

By creating a speculative capitalist interest in existing production, etc., the deflationary effects of technological progress in productive technology are viewed as a source of danger to established investment. This bias towards dampening technological progress gives monetarism a reenforced bias towards fixing the range of technology, to much the same effect in tendency as the Charlemagne inventory of the realm or Norman Domesday Book. Thus, monetarism tends toward a feudal outlook on economy, a tendency which coheres with its tendency to equate profit with ground-rent in all major features of its financial practice.

The function of credit and capitalist credit in an industrial capitalist economy — and industrial-capitalist economic relations with socialist economies — is to generate debt-service against a significantly larger increase in the absolute profit of the borrower. This, as Hamilton was the first to discover in rigorous terms, depends upon increasing the productive powers of labor through raising the average level of technology of production in the debtor-economy.

From an industrial-banking standpoint, if such investments wipe out old assets, so much the better, since the debtors ability to pay has been increased in that way.

The monetarist, philosophically a nominalist, locates wealth not in real wealth, not in the debtor's increased ability to pay in terms of increased real absolute profit margins, but in the nominal wealth itself, the mere nominal form of wealth.

For this reason, financial interests in the continuing nominalist-monetarist tradition of the Bardi, Fuggers, old Amsterdam, the nineteenth century Rothschilds, the Rockefellers, are anti-technology in bias and in fact anti-capitalist. This apparent paradox is solved by the historic fact that those banking traditions are a pre-capitalist relic from the anti-humanist bowels of the thirteenth century, a relic which has persisted because it has managed to dominate hegemonic international banking systems from the thirteenth century to the present. It has accomplished this not by maintaining a single banking interest, but by reproducing its tradition in other nations. So the Bardi and Peruzzi created, indirectly, the Fuggers, who created Antwerp and the Amsterdam bankers, their successors, who created their London successors, which created their lower Manhattan successors.

It is time to break that chain. The alternative is either to prop up David Rockefeller, Witteveen, McNamara and so forth — by repeating the genocidal austerity policies of the mid-fourteenth and sixteenth through early seventeenth centuries, the policies of Schacht and his Nazi successors, on a global or nearly-global scale, or to permit general monetary and economic collapse. This time we must seize the opportunity represented by the collapse of David Rockefeller's financial position to create for the first time an industrialist banking system on a global scale.