

# Warnings from the central bankers' bank

Nick Beams  
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The rot and decay at the heart of the global financial system is deepening and extending. This is the conclusion to emerge from the annual report of the Bank for International Settlements (BIS) released on Sunday.

The BIS, sometimes referred to as the central bankers' bank, was one of the few institutions that pointed to the dangerous imbalances in the global financial system that led to the collapse of Lehman Brothers in September 2008. Three years on its annual report gives clear indications that another financial crisis is in the making.

One of the biggest dangers comes from the massive assistance provided by central banks to the banks and financial institutions through ultra-low interest rates and interventions into debt markets. The third consecutive year of "extremely accommodative financial conditions" coupled with "near zero interest rates in the core advanced economies increasingly risk a reprise of the distortions they were originally designed to combat."

The extent of this intervention is indicated by the growth of central banks' balance sheets to "an unprecedented size." In response to the financial crisis, the US Federal Reserve and the Bank of England have both increased their assets from 8 percent of gross domestic product (GDP) to around 20 percent, while the increase in the Eurosystem is from 13 percent to more than 20 percent of euro area GDP.

This massive bailout has created new problems. "Central bank balance sheet policies have supported the global economy through a very difficult crisis. However, the balance sheets are now exposed to greater risks—namely interest rate risk, exchange rate risk and credit risk—that could lead to financial losses." In other words, by moving in to bail out the major banks, the central banks themselves have been drawn into the crisis.

At the same time, having been bailed out, the banks, hedge funds and finance houses, are at it again, engaging in the same activities that sparked the crisis in 2007-2008. The BIS points to what it calls a "resurgence of financial innovation"—in reality, highly dubious and in some cases outright criminal financial manipulations—warning that the "arrival of new products with risks untested by market stress vividly brings back memories of the lead-up to the financial crisis."

The BIS report also points to what it calls "political economy pressures" as central banks are criticised for favouring "some segments of the economy over others" and the "degree of preferential treatment that one financial institution receives over another." This is a rather polite way of pointing to widespread anger over the fact that in the US, for example, the banks have received trillions of dollars while home-buyers, who were the victims of their policies, have received nothing, and that there is an intimate relationship between Goldman Sachs and the US Treasury.

The BIS adds its voice to those financial institutions demanding sweeping measures to bring down government debt in the major industrial economies. If a major economy were drawn into the debt crisis it would have catastrophic consequences.

"We should make no mistake here: the market turbulence surrounding the fiscal crises in Greece, Ireland and Portugal would pale beside the devastation that would follow a loss of investor confidence in the sovereign debt of a major economy," the report said.

A crisis of confidence in a major economy would develop suddenly rather than as a gradual build-up because "either you enjoy the confidence of the markets or you don't. Therefore, a loss of confidence in the ability and willingness of a sovereign to repay its debt is more likely to be characterised by a sudden change in sentiment than by a gradual evolution." It

warned that the “current ability of the United States to easily finance its deficit” could not be taken for granted, as past examples in a number of smaller countries suggested that market confidence could evaporate quickly “forcing sudden and costly adjustment.”

The BIS has called on governments to take “swift and credible action” to bring down debt levels. But this does not mean a return to the pre-crisis situation. So-called “structural tasks” have to be addressed. “In many countries ... [this] involves facing up to the fact that, with their populations ageing, promised pension schemes and social benefits are simply too costly to sustain.”

That is, large portions of the social welfare measures enacted in the post-war period must be wiped out to pay off the government debts incurred as a result of the bailout of the banks. The BIS insists that a return to the “pre-crisis fiscal stance will not be enough” for at least two reasons. Pre-crisis fiscal positions looked “too rosy” because of the tax revenues from asset price booms, and surpluses must be built up to act “as buffers that can be used for stabilisation in the future.” In other words, the working class must be made to pay not only for the past crises created by the banks but for future ones as well.

The BIS report put a spike in the often-advanced claim that while the advanced capitalist economies were experiencing major difficulties, the rapid growth of the so-called emerging markets will provide a new basis for the expansion of the global economy as a whole. These economies are now facing growing problems because the supply of ultra cheap credit in the major capitalist economies—exemplified above all by the Fed’s “quantitative easing” program—has pushed up food and other commodity prices as well as creating a series of new asset price bubbles.

“Emerging market economies,” the report noted, “managed to escape the worst of the crisis, but many now run the risk of building up imbalances very similar to those seen in advanced economies in the lead-up to the crisis. For example, property prices in a number of emerging market economies are advancing at staggeringly rapid rates, and private sector indebtedness is rising fast.”

While the report does not name names, China, which plays such a key role in world growth, is one of the

economies that fits this description most closely.

The BIS report makes clear that the working class confronts a deepening breakdown of the world capitalist economy, posing decisive political challenges.

The representatives of global capital have a program to meet it: not “recovery”—that is impossible—but a counterrevolution to return social conditions to the level of the 1930s.

The working class must develop its own perspective, no less thought-out and decisive and no less ruthlessly carried out. In organising the broadest resistance to the program of finance capital, it must advance the struggle for political power, for the establishment of workers’ governments, to organise the socialist transformation of the economy.



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