

## BIS admits the financial system is finished

by John Hoefle

While it is not at all unusual for central bankers to rail at nation-states for “interfering” in the regulation of the global financial system, the Bank for International Settlements added a critical new element to the diatribe, in its annual report, released on June 9, admitting that it does “not fully understand” the forces which are controlling the world’s economy today.

Regular readers of *EIR*, who have watched the bankers try to “grow” their way out of bankruptcy by inflating a series of financial bubbles—each less connected to reality than its predecessors—will not be surprised that the bankers are ignorant of the basic precepts of economic science; these are, after all, the folks who have brought the world to the brink of the greatest financial blowout in centuries, at a tremendous cost in human misery and death. But when the BIS, the central bank of the central banks, admits publicly that it has lost control of the situation, it is saying, “The system is finished.”

### LaRouche was right

“The significance of the report, coincides with a number of other things which are happening,” Lyndon LaRouche said in a radio interview with “EIR Talks” on June 11. “It’s warning that, in the opinion of these bankers—Remember what the Bank for International Settlements is. It was established in the end of the 1920s, the beginning of the 1930s, to handle the Versailles reparations debt-rollover, and has been a key institution before the IMF [International Monetary Fund] existed. It’s still of that importance. It’s very conservative, in its own way. It simply is saying, ‘Okay, fellas, stop the talk. This system is finished! Let’s talk about the reality of the system’s disintegration. Let’s talk about the doom which awaits it, and let’s pick up our pieces, accordingly.’ ”

To make sure that its insider audience gets the message, the BIS put its new disclaimer right up front, in paragraph two of the report’s introduction. “While plausible explanations can be suggested for many of the economic and financial developments in 1996, they were nevertheless surprising in a number of respects,” the BIS report candidly stated. Asking whether these “surprising developments” were “the products of fundamental economic forces, or, rather, will they be reversed by such forces in the future?” it responded: “One part of an honest answer is that we simply do not know. Rapid technological change and deregulation, which today profoundly affect all aspects of the global economy, increasingly cloud our sense of what is possible and reasonable. . . . They may bring transitional difficulties and unexpected side-effects stemming from the interaction of many shifting forces: real, financial and even social. . . . Moreover, the ability to explain and predict must also be constrained by the limits of our knowledge. There are many economic processes that we do not fully understand.”

### Systemic crisis

“When you get through all the language, and all the shadings of meaning,” LaRouche observed, “this is the most frank statement, since I’ve made them, publicly, saying the system, the international financial system, is finished. This is not a problem in France, as such, it’s not a problem in Germany, it’s not a problem in the United States as such, or in Japan, or something like that, the usual explanation: *No!* Nor is it a part of the banking system, or this part, or that part. *It’s the whole, blasted international financial and monetary system is finished!* And the Bank for International Settlements is saying: ‘That’s the way it is. Let’s not pretend otherwise.’ ”

That this is a systemic crisis, was made clear by the BIS's own survey of the financial world. It cited the "bank fragility in Asia," the "restructuring" under way in Ibero-America, and the "downside" that "liberalized financial sectors are prone to more costly misadventures," such as the "risk to 'gamble for resurrection.' . . . When the bubble bursts, banks and their customers will face major difficulties."

These eruptions, which LaRouche has characterized as financial mudslides, are but a precursor to the "big one," a reverse-leverage disintegration of the entire financial system, in a matter of hours or days.

The danger, the BIS admitted, is that a default by a major derivatives player, could trigger a chain-reaction collapse in the \$5 trillion-a-day international payments system. "It has also been recognized for some time that failures in payment and settlement systems for large-value transactions constitute a potential source of systemic fragility," the BIS stated. "While we have not yet experienced the economic losses that might be associated with a major failure in payments systems . . . a few close calls in recent years were wake-up calls." Working through the Committee on Payment and Settlement Systems, the BIS has feverishly rushed to convert the systems from settling accounts at the end of each day, to settling accounts in real-time, in an attempt to reduce the domino effect of the failure of a major institution, upon the system as a whole.

### Still hanging on

Even while admitting that the system is doomed, the BIS continues its efforts to maintain its financial and political control. The report contains a litany of complaints against the nation-states, accusing them of "excessive state interference," "excessive credit generation," and the unforgivable sin of "directed lending," as if it were the nations, rather than the international financial oligarchy, which had created this deadly financial bubble. The truth is, that it is the failure of nations to take those actions — to properly regulate the financial system, to direct credit into the productive sector of the economy — which has allowed the oligarchy to bring us to the brink of destruction.

Calling the world "already overbanked," with "rents from established franchises . . . threatened," the BIS promotes "a world with no barriers to universal banking. . . . Firms must be allowed to respond to competitive pressures by increasing efficiency even if it involves reduced employment. Capital that earns an inadequate rate of return should be withdrawn, and firms must be allowed to merge, even with foreign partners, or to disappear."

The BIS concludes by calling for "international norms and understandings" to be developed by an "international consultative process," and that "national authorities must then bear the responsibility for adopting and implementing the norms."

It is "all the more important to design a framework which

will preserve the stability of the financial system, regardless of the kinds of shocks or the degree of asset price inflation to which it might be subjected," the BIS said. In other words, the system must be modified such that, no matter what the shock, the bankers still run the show.

### A new period of history

But, even as the bankers increase their demands, their power to enforce them is being undermined by the destruction they have sown, as governments and peoples rebel against IMF-style austerity.

"France and others are saying, in effect, that this system, that is, the Maastricht system, which is a component of the whole thing, is not going to fly," LaRouche said. "So, the 'euro,' the united European deal on a common European currency, and a common economic system, is essentially, at this time, in jeopardy. It may be finished.

"At the same time, you have indications that the Kohl government in Germany, may be on the rocks. Herr Waigel is already in trouble, and said so. He just went up to see Helmut Schmidt, the Social Democrat, and also close to Kissinger, and close to the British, who was for some time, of course, the chancellor of Germany, whom Kohl toppled in a deal with the liberal [Free Democratic] Party in 1982. So, Waigel went up to Schmidt, for his advice on what might be done about this. And Schmidt said (according to the reports which Waigel made), 'There's nothing you can do about it, except call for new elections, and resign.' 'Just resign,' was the general statement.

"So, what we're into now, is, we are in a general upheaval in the financial system. And the important thing is not just that the financial system is collapsing. I could have told you that any number of weeks past, or a couple of years past, what's going on here. And in recent times, I've been emphasizing: This thing is getting close. It may not go this round, this next upcoming bust. You'll have a small one, I think, or a major one coming up, but it probably won't be the last one; and, then we'll have something bigger after that. But, somewhere very near, in the near future, and one of these next, or the one after that, or the one after that, of these busts that are coming on this year, this whole system's going to *blow*.

"And the important thing is that the political system is blowing. And the other important thing is that the leaders of the banking system, and the financial system are coming out and *saying*, contrary to those nuts, called 'mutual funds managers' on Wall Street, 'Look, we are now operating on the basis that this system is finished.' That means it *is finished*. Because the people who are in the strongest position to run it, are saying, 'the case is hopeless; the patient is dying. We're going to have to get it reincarnated, in some way.'

"This is momentous. A whole period of history has come to an end, and let's hope that a new period of history is about to begin."