

Commentary by Sean Corrigan
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The Bankers' Bankers Meet

Monday marked the annual get together of the central bankers' central bank – the Bank for International Settlements in Basle, Switzerland.

This shadowy institution was set up at the explicit urging of the eccentric and somewhat occultist Montagu Norman, Governor of the Bank of England for most of the interwar period.

Now, Norman – the Alan Greenspan of his day—was one of those unaccountable grandees among the world's elite who wants both to have his cake and to eat it, too. Like most of them, he ended up both hungry and pastryless.

His goal – aimed at reversing the effects of the complete abandonment of all sustainable means of finance during the ruinous Great War – was to return Sterling to the gold standard at its pre-war parity, but without undergoing the deflation necessary to reset the levels of prices either to the existing supply of gold, or to where they would be in rough harmony with that of Britain's overseas competitors.

That very modern sounding fudge turned out to be the basis for two decades of *ad hoc* expediency which started with bootleggers and bellhop stock pickers and ended up sowing the seeds for the even more devastating War of the Dictators. In setting up the BIS, Norman had one explicit and two tacit, though not secret, objectives.

Ostensibly, it was where the problems posed by the imposition of vast levels of war reparations on Germany would be co-ordinated – hence, its rather prosaic name. But, it was also to provide a confidential venue for the cabal of international central bankers to consort with one another, indeed, to conspire with one another, in relative secrecy and, further, it was to be the centre of those efforts at denying the underlying economic realities of the time, adopted at the Genoa monetary conference in 1922, which went under the name of 'economizing on the use of gold'

The inauguration of this so-called gold-exchange standard marked the first stage in the progressive loosening of the politically-inhibiting, but individually-liberating, rules intrinsic to using the Sun Metal as the base for the world's monies.

As such, it was the direct cause of both the Boom of the 1920s and the Bust of the 1930s, as well as of the internationalization of the general inflation in goods prices, and the wild swings in asset prices upon which our increasingly violent business cycles have been superimposed.

Ironically, a mere year after the BIS itself was set up, it was already partly an anachronism – for, by 1931, the German and Austrian banking systems had collapsed,

President Hoover had declared a moratorium on the payment of war debt and reparations, and Norman himself was to lead Britain – and thus the rest of the Empire – off gold in the attempt to mitigate the crisis all this had triggered at home.

Of course, under the iron rule of the self-perpetuation of international bureaucracies (see under: NATO), the fact that the original premises for such an institution's founding had been overtaken by events, in no way meant it would be abandoned. So, even now, seventy years on, every month a conclave of the highest fiat money cardinals on the planet gathers *in camera* there amid the Alps, to dispose of the fate of nations.

Two interesting things came out of the annual meeting just held.

Firstly, though there was some sound good sense talked about how falling prices - when brought on by a burst of output and extra productive activity - would be anything BUT a curse, this was instantly vitiated by the sustained special pleading that today's peculiar circumstances - essentially those of already lowered interest rates, high indebtedness, and sticky wages - would almost inevitably make such an occurrence a dangerous one.

Thus, the collected Princes of Paper and Kaisers of Credit pretty much endorsed all the recent Federal Reserve-propagated craziness about administering the whole pharmacopoeia of quack remedies to any economy so afflicted – among them the accelerated reduction of interest rates for those so able; to be followed by the monetization firstly of government securities, then of those issued by other entities, and, lastly, of real assets if necessary; this to be coupled with morally hazardous guarantees of support for the financial firms which comprise the central banks' cartel; the avowal of cast-iron assurances as to the extended duration of all such policies; and the possible adoption of rising price level, rather than just inflation, targets.

That way madness lies, since implementation of these would at best increase the chances of a Japanese-style stagnation - by keeping dead companies alive and leaving entrepreneurs befuddled in a narcopecuniary world of unreal prices and false valuations - and at worst it might lead to wheelbarrow hyperinflation if the taps are kept open too long after any upturn was engendered.

Secondly, there was a revealing comment from the BIS President – Dutchman Nout Wellink – in an accompanying address, that: *'the depreciation of the dollar is one mechanism that would tend to narrow the US external imbalance'* – banker-speak for its yawning trade gap – and this, *'by providing room for easing monetary policy elsewhere... could also contribute to a welcome boost to global demand..'*

Translated, this means that as the Greenback is again eased lower in value - for this must decidedly not be allowed to take place at *'at an uncomfortable pace'* – other countries' interest rates will continue to be lowered, all the way to nought, if necessary, to compensate.

As that great bird of ill-omen, John Maynard Keynes himself, once said: 'Everything balances at zero' – though much good may the practical application of that mathematical truism do to us, if it happens!

But, no such worries were openly expressed by the attendees, as the Toronto Globe & Mail reported: *'Everybody was very confident about it,'* said Gordon Richardson, former Bank of England governor. *'It was a theoretical discussion without any sharp corners,'* remarked Matti Louekoski, deputy governor of the Bank of Finland, cryptically.

But, Gold Bugs please note: according to several central bankers who spoke to the paper, Alan Greenspan again argued that measures once considered 'unorthodox' might now become conventional. *'We used to watch only commodity prices, exchange rates and interest rates, but now it seems we also have to examine or monitor asset prices,'* one unnamed participant was quoted.

The central bankers, though grudgingly acknowledging that their doctrine of ensuring generic price stability is insufficient to maintain financial stability – for reasons no Austrian will need to have enumerated – still resolutely eschew all suggestion that they should *'examine or monitor asset prices'* in the upswing, of course.

This, they explain, is because any increase in interest rates *'sufficient to offset wildly exuberant expectations in some sectors of the economy could wreak havoc elsewhere'* – which is a tacit admission that fiat money and elastic credit is ultimately insupportable – and also because *'convincing the public of the need for such a policy would also be difficult'* – which is simply a confession of political cowardice.

But, once let the Bust succeed the Boom and the central banks' focus switches from the prime directive of underwriting oligarchic and State expropriation of private property and to the second imperative of protecting their own. *'While it might be possible to minimise the excesses,'* the report baldly states, *'a more important objective would be to keep the financial system functioning properly even after a credit or asset price bust.'*

Add this to the glaring asymmetry outlined above in the circumstances under which asset prices should be 'monitored' and does anyone still really doubt the existence of some form of heavy-handed and ultimately counter-productive market intervention, such as that reputed to be carried out by the agency colloquially known as the 'Plunge Protection Team'?

If so, please send me your address. I have an interesting proposition concerning a certain landmark bridge to show you.

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