

The world's central bankers are just waiting for the ne...

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Robin Harding has an excellent article [in the FT this morning in which he says](#):

The world is doomed to an endless cycle of bubble, financial crisis and currency collapse. Get used to it. At least, that is what the world's central bankers — who gathered in all their wonky majesty last week for the Federal Reserve Bank of Kansas City's annual conference in [Jackson Hole](#), Wyoming — seem to expect.

All their discussion of the international financial system was marked by a fatalist acceptance of the status quo. Despite the success of unconventional monetary policy and recent big upgrades to financial regulation, we still have no way to tackle imbalances in the global economy, and that means new crises in the future.

I am sure he is right is nothing changes. His synopsis is that so barren is the thinking amongst such bankers that they've reached the point of believing that, as he puts it: *The choice is this: impose capital controls or let the Fed run your economy. The shrugging acceptance of this gloomy analysis in Jackson Hole was striking, especially at a time when capital is fleeing the emerging world — pulling down exchange rates — as the Fed ponders a tapering of its asset purchases from \$85bn a month. At a minimum, that threatens developing countries with higher inflation and higher interest rates; those that enjoyed the capital inflows a bit too much, such as India and Indonesia, could suffer something worse.*

India is already in crisis. I do not think it will be alone. Yet again we are going to see the world's poorest people supporting the failure of the wealthiest unless something is done.

I support the idea of capital controls: I think every state should have them in their armoury as a necessary and indeed essential tool that ensures that they have some sovereignty over their currency and economy. I also accept the risks that they create, which as Harding suggests are real and which are based on parochialism (no better portrayed than by the actions of the US Fed). But as Harding says:

But [this] is not the only choice. Five years ago, after the collapse of Lehman Brothers, there was appetite and momentum for a new kind of international financial system. That appetite is gone — but we desperately need to get it back.

The flaws in the international financial system are old and profound, and they defeat any effort to work around them. Chief among them is the lack of a mechanism to force any country with a current account surplus to reduce it. Huge imbalances — such as the Chinese surplus that sent a flood of capital into the US and helped create the financial crisis — can therefore develop and persist.

A reliable backstop is impossible when the international system relies on a national currency — the US dollar — as its reserve asset. Only the Fed makes dollars. In a crisis, there are never enough of them — a shortage that will only get worse as the world economy grows relative to the US — even if the problem for emerging markets right now is too many of them.

The answer is what [John Maynard Keynes](#) proposed in the 1930s: an international reserve asset, rules for pricing national currencies against it, and penalties for countries that run a persistent surplus. After the financial crisis there was a flood of proposals along these lines from the UN, from the economist Joseph Stiglitz, and even from the governor of the People's Bank of China. None has gone anywhere.

Even the most basic first step towards that goal — boosting the IMF's resources and handing more voting power to emerging markets so they can rely on it in time of need — has stalled in the US Congress.

Such a step, coupled with capital controls, would and could work to create the stability the world craves.

Why haven't we got it? Because central bankers can't embrace it.

We need Courageous politicians to do that. Am I whistling in the wind?