Funding the Future

The Central Banks' bank thinks the next global financia...

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As the Guardian notes this morning:

Investors are ignoring warning signs that financial markets could be overheating and consumer debts are rising to unsustainable levels, the global body for central banks has warned in its quarterly financial health check.

The Bank for International Settlements (BIS) said the situation in the global economy was similar to the pre-2008 crash era when investors, seeking high returns, borrowed heavily to invest in risky assets, despite moves by central banks to tighten access to credit.

The BIS, known as the central bankers' bank, said attempts by the US Federal Reserve and the Bank of England to choke off risky behaviour by raising interest rates had failed so far and unstable financial bubbles were continuing to grow.

As regular readers of this blog know, I have long seen a crash coming and am unapologetic for saying so. We have been in bubble territory for a long time; others are now saying so as the evidence becomes unavoidable.

I disagree with the BIS on the issue of interest rates though: they'd like more rises to kill off bubbles. I think significantly more direct action is required that actually tackles the issue and does not penalise ordinary people yet again for something not of their creation. So, significant rises in corporation tax for large companies; wealth taxes; a variable rate financial transaction tax with a rate that rises in periods of financial volatility and more action on bank capital are required, now. These might work. Interest rate rises will just push households into default.

But what we cannot ignore is that the crash is coming. It very obviously is unless some fairly radical action is taken. All we can't do is say when, precisely.