

IMF Calls for Huge New Round of Bank Bailouts

By [Washington's Blog](#)

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The IMF is calling for a huge new round of bank bailouts.

As the Telegraph noted [yesterday](#):

Lenders across Europe and the US are facing a \$4 trillion refinancing hurdle in the coming 24 months and many still need to recapitalise, the Washington-based organisation said in its [Global Financial Stability Report](#). Governments will have to **inject fresh equity** into banks - particularly in Spain, Germany and the US - as well as **prop up their funding structures** by extending emergency support.

Prop up their funding structures?

Virtually all leading independent economists have said that [the too big to fails must be broken up, or the economy won't be able to recover](#), and that smaller banks actually [lend more into the economy](#) than the mega-banks (and see [this](#)).

And the leading monetary economist [told](#) the Wall Street Journal that this was not a liquidity crisis, but an insolvency crisis. She said that Bernanke is fighting the last war, and is taking the wrong approach. Nobel economist Paul Krugman and leading economist James Galbraith largely [agree](#).

The Telegraph continues:

"Progress toward global financial stability has experienced a setback since April ... [due to] the recent **turmoil in sovereign debt markets**," the IMF said. "The global financial system is still in a period of significant uncertainty and remains the Achilles' heel of the economic recovery."

Turmoil in sovereign debt markets necessitating another round of bailouts?

This is amusing, given that it was the last round of bailouts which caused the sovereign debt crisis in the first place.

Specifically, the Bank for International Settlements - often described as a central bank for central banks (BIS) - [slammed](#) the failure of the Fed and other central banks to force companies to write off bad debts years ago.

BIS also [warned](#) that the Fed and other central banks were simply transferring risk from private banks to governments, which could lead to a sovereign debt crisis. That is what caused the sovereign debt crisis in the first place!

And BIS [cautioned](#) that bailouts could harm the economy (as did the [former head of the Fed's open market operations](#)).

The Telegraph continues:

Although banks have recognised all but \$550bn of the **\$2.2 trillion** of bad debts the IMF estimates needed to be written off between 2007 and 2010, they are still facing a looming funding shock that will need state support. “Nearly \$4 trillion of bank debt will need to be rolled over in the next 24 months,” the report says.

\$2.2 trillion? In reality, Tyler Durden, Mike Shedlock, Edward Harrison, Reggie Middleton, Max Keiser and many other savvy financial commentators would put the number closer to \$20-40 trillion in bad debts. And they say that one of the main problems with the world economy is that the banks are hiding the real amounts of their debts (and the fact that they are totally insolvent), so that they can have the taxpayers bail give them a number of bailouts.

In other words, the big banks are saying, “The economy is unexpectedly not doing well, so we need another bailout.”

And the banks and their water-carriers in the central banks, IMF and other agencies will repeatedly say the same thing over a number of years to slowly get the banks' \$20-40 trillion dollars worth of debt mopped up by the taxpayer.

See how that works? If people knew that the giant banks have created a black hole of debt large enough to suck most of the world economy into it, and that the debt was created through fraud and wild gambling and speculation, demands to break up the giant banks and imprison their management would be overwhelming.

So they hide it.

Instead, they leak out a little information about their debt in dribs and drabs over the course of many months and years, acting surprised that there's still debt on their books due to “unexpected” conditions in the economy. The party line is and will continue to be that these conditions aren't their fault, but are due to the bad housing market, or unemployment, or other conditions “out there in the economy” and not of their making. And, of course, bailouts are needed to deal with these “unforeseen” events.

Sound far-fetched?

Remember, the largest U.S. banks have [repeatedly gone bankrupt due to wild speculation, and the government helped to cover it up](#). Many top analysts have said the U.S. banks are insolvent (see [this](#), for example). And the big banks have hidden huge liabilities in [“off balance sheet” accounts](#).

Continuing on:

The IMF adds: “Without further bolstering of balance sheets, banking systems remain susceptible to funding shocks that could **intensify deleveraging pressures** and place a further drag on public finances and the recovery.”

Intensify deleveraging pressures?

Deleveraging is what we need to stabilize the economy.

As I've previously noted:

The New York Federal published a [report](#) in July entitled "The Shadow Banking System: Implications for Financial Regulation".

One of the main conclusions of the report is that leverage undermines financial stability:

Securitization was intended as a way to transfer credit risk to those better able to absorb losses, but instead it increased the fragility of the entire financial system by allowing banks and other intermediaries to "leverage up" by buying one another's securities. In the new, post-crisis financial system, the role of securitization will likely be held in check by more stringent financial regulation and by the recognition that it is important to prevent excessive leverage and maturity mismatch, both of which can undermine financial stability.

And as a former economist at the New York Fed, Richard Alford, [wrote](#) recently:

On Friday, William Dudley, President of FRBNY, gave [an excellent presentation](#) on the financial crisis. The speech was a logically-structured, tightly-reasoned, and succinct retrospective of the crisis. It took one step back from the details and proved a very useful financial sector-wide perspective. The speech should be read by everyone with an interest in the crisis. It highlights the often overlooked role of leverage and maturity mismatches even as its stated purpose was examining the role of liquidity.

While most analysts attributed the crisis to either specific instruments, or elements of the de-regulation, or policy action, **Dudley correctly identified the causes of the crisis as the excessive use of leverage** and maturity mismatches embedded in financial activities carried out off the balance sheets of the traditional banking system. The body of the speech opens with: **"..this crisis was caused by the rapid growth of the so-called shadow banking system** over the past few decades and its remarkable collapse over the past two years."

In fact, every independent economist has said that too much leverage was one of the main causes of the current economic crisis.

Federal Reserve Bank of San Francisco President Janet Yellen [said](#) recently that it's "far from clear" whether the Fed should use interest rates to stem a surge in financial leverage, and urged further research into the issue. "Higher rates than called for based on purely macroeconomic conditions may help forestall a potentially damaging buildup of leverage and an asset-price boom".

And as Nouriel Roubini [said](#) last year, "This is a crisis of solvency ... But true deleveraging has not begun yet because the losses of financial institutions have been socialized". I.e. that last round of bailouts prevented deleveraging.

And remember, money from the last round of bailouts wasn't exactly used for the best purposes as far as the economy is concerned. As I [pointed out](#) in May:

The \$700 billion dollar TARP bailout was a [massive bait-and-switch](#). The government said it

was doing it to soak up toxic assets, and then switched to saying it was needed to free up lending. It [didn't do that](#) either. Indeed, the Fed [doesn't want](#) the banks to lend.

As I [wrote](#) in March 2009:

The bailout money is just going to line the pockets of the wealthy, instead of helping to stabilize the economy or even the companies receiving the bailouts:

Bailout money is being used to [subsidize](#) companies run by horrible business men, allowing the bankers to receive [fat bonuses](#), to [redecorate](#) their offices, and to buy [gold toilets](#) and [prostitutes](#)

A lot of the bailout money is going to the failing companies' [shareholders](#)

Indeed, a leading progressive economist [says](#) that the true purpose of the bank rescue plans is "a massive redistribution of wealth to the bank shareholders and their top executives"

The Treasury Department [encouraged](#) banks to use the bailout money to buy their competitors, and [pushed through an amendment to the tax laws](#) which rewards mergers in the banking industry (this has caused a lot of companies to bite off more than they can chew, destabilizing the acquiring companies)

And as the New York Times [notes](#), "Tens of billions of [bailout] dollars have merely passed through A.I.G. to its derivatives trading partners".

In other words, through a little game-playing by the Fed, taxpayer money is going *straight into* the pockets of investors in AIG's credit default swaps and is not even really stabilizing AIG.

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