The Federal Reserve Knew that a Financial Crash was Coming

"Blowing Bubbles" and "Using Palliatives" which "Make Things Worse"

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BIS Slammed Federal Reserve and Other Central Banks for Blowing Bubbles and then "Using Gimmicks and Palliatives" which "Will Only Make Things Worse"

If you have any doubt that the Fed and other central banks should have known that a crash was coming, all you have to do is look at this June 2007 article from the Telegraph:

> The Bank for International Settlements, the world's most prestigious financial body, has warned that years of loose monetary policy has fuelled a dangerous credit bubble, leaving the global economy more vulnerable to another 1930s-style slump than generally understood…
>
> The BIS, the ultimate bank of central bankers, pointed to a confluence a worrying signs, citing mass issuance of new-fangled credit instruments, soaring levels of household debt, extreme appetite for risk shown by investors, and entrenched imbalances in the world currency system…
>
> The bank said it was far from clear whether the US would be able to shrug off the consequences of its latest imbalances …
>
> "Sooner or later the credit cycle will turn and default rates will begin to rise," said the bank.

A year later, in June 2008, the Telegraph wrote:

> A year ago, the Bank for International Settlements startled the financial world by warning that we might soon face challenges last seen during the onset of the Great Depression. This has proved frighteningly accurate…
>
> [BIS economist] Dr White says the US sub-prime crisis was the "trigger", not the cause of the disaster.

Indeed, BIS slammed the Fed and other central banks for blowing the bubble, failing to regulate the shadow banking system, and then using gimmicks which will only make things worse. As the 2008 Telegraph article notes:

> In a pointed attack on the US Federal Reserve, it said central banks would not find it easy to "clean up" once property bubbles have burst…

> Nor does it exonerate the watchdogs. "How could such a huge shadow banking system emerge without provoking clear statements of official concern?"
>
> "The fundamental cause of today's emerging problems was excessive and imprudent credit growth over a long period. Policy interest rates in the advanced industrial countries have been unusually low," he said.
>
> The Fed and fellow central banks instinctively cut rates lower with each cycle to avoid facing the pain. The effect has been to put off the day of reckoning…
>
> "Should governments feel it necessary to take direct actions to alleviate debt burdens, it is crucial that they understand one thing beforehand. If asset prices are unrealistically high, they must fall. If savings rates are unrealistically low, they must rise. If debts cannot be serviced, they must be written off.
>
> "To deny this through the use of gimmicks and palliatives will only make things worse in the end," he said.

In other words, BIS slammed the easy credit policy of the Fed and other central banks, and the failure to regulate the shadow banking system.

More dramatically, BIS slammed "the use of gimmicks and palliatives", and said that anything other than (1) letting asset prices fall to their true market value, (2) increasing savings rates, and (3) forcing companies to write off bad debts "will only make things worse".

This is, of course, what Marc Faber and many other economists have said for years.

But Bernanke and the other central bankers (as well as Treasury and the Council of Economic Advisors and Barney Frank and Chris Dodd and the others in control of American and British and French and Japanese and German and virtually every other country's economic policy) ignored BIS' advice in 2007 and 2008, and they are still ignoring it today.

Instead, they are doing everything they can to (2) prop up asset prices by trying to blow a new bubble by giving banks trillions, (2) re-write accounting and reporting rules to let the big banks and other giants keep bad debts on their books (or in sivs or other "second sets of books") and to hide the fact that they are bad debts, and (3) encourage consumers to spend spend spend!

"The world's most prestigious financial body", "the ultimate bank of central bankers" has condemned Bernanke and all of the other G-8 central banks, and stripped bare their false claims that the crash wasn't their fault or that they are now doing the right thing to turn the economy around.

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