
The Bankers Who Control the World

By Edward Jay Epstein *Mon, Apr 11, 2011*

Some goldbugs have accused the Bank of International Settlements of engineering the 2008 financial crisis to subvert the dollar. This account of a visit to BIS' Swiss headquarters, first published in Harper's in 1983, has been updated for RIJ by the author.

“A towering citadel housing what is essentially a sovereign state known as the Bank for International Settlements is located in Basel, Switzerland. The bank now controls the financial affairs of planet Earth”—from *Crisis by Design: The Untold Story of the Global Financial Coup*, John Truman Wolfe (Roberts Ross, 2010).

For many decades the central bank for central bankers, the Bank of International Settlements has been accused of engineering the recent financial crisis in order to weaken the dollar. In the early 1980s, reporter Edward Jay Epstein visited the BIS and wrote about it for Harper's magazine. Updated for RIJ, his first-hand account remains one of the few independent profiles of the BIS.

Ten times a year—once a month except in August and October—a small elite of well-dressed men arrives in Basel, Switzerland. Carrying overnight bags and attaché cases, they discreetly check into the Euler Hotel, across from the railroad station.

They come to this sleepy city from places as disparate as Tokyo, London, and Washington, D.C., for the regular meeting of the most exclusive, secretive, and powerful supranational club in the world. While here, they are fully serviced by chauffeurs, chefs, guards, messengers, translators, stenographers, secretaries, and researchers. For their relaxation, there is a secluded nearby country club with tennis courts and a swimming pool.

The membership of this club is restricted to a handful of powerful men who determine daily the interest rate, the availability of credit, and the money supply of the banks in their own countries. They include the governors of the U.S. Federal Reserve, the Bank of England, the Bank of Japan, the Swiss National Bank, and the German Bundesbank.

The unabashed purpose of this elite society is to make decisions that aim to influence and, if possible, to control all monetary activities in the industrialized world. The place where this club meets in Basel is a unique financial institution called the Bank for International Settlements—or more simply, the BIS (pronounced “biz” in German).

Origins of the BIS

The BIS was established in May 1930 by a small elite of central bankers to collect and settle Germany's massive World War I reparation payments (hence its name). These lords of finance organized it as a commercial bank with publicly held shares. Their power was such that an international treaty, signed in The Hague in 1930, guaranteed the bank's immunity from government interference, and even taxation, in both peace and war.

Its depositors, the world's central banks, also stored much of their gold there. As the central banks provided it with a profit on every transaction, it required no subsidy from any state, making it truly a supra-government of finance. Congress officially refused to allow the U.S. Federal Reserve to participate in the BIS, or to accept shares in it (which instead were held in trust by the First National City Bank). But the chairman of the Fed quietly slipped over to Basel for important meetings to deal with the financial panics that flared up in Austria, Hungary, Yugoslavia, and Germany in the 1930s, and to prevent the collapse of the global financial system.

These central bankers had to coordinate their rescue efforts in secret, and the meeting spot that provided them with the necessary cover was the BIS, where they regularly went anyway to arrange gold swaps and war-damage settlements. World monetary policy was evidently too important to leave to national politicians. Even during World War II, when the nations, if not their central banks, were belligerents, the BIS continued operating in Basel. The monthly meetings were temporarily suspended in 1944, following Czech accusations that the BIS was laundering gold that the Nazis had stolen from occupied Europe.

After the war, the American government backed a resolution calling for the liquidation of the BIS. The naive idea was that the new International Monetary Fund could take over the BIS' settlement and monetary-clearing functions. What could not be replaced, however, was what existed behind the mask of an international clearing house: a supranational organization for setting and implementing global monetary strategy, which could not be accomplished by a democratic, United Nations-like international agency.

The central bankers, not about to allow anyone to take their club from them, quietly snuffed out the American resolution. Indeed, the BIS grew stronger, and proved particularly useful to the United States in the Cold War years.

When the dollar came under attack in the 1960s, massive swaps of money and gold were arranged at the BIS for the defense of the American currency. It was undeniably ironic that, as the president of the BIS observed, "the United States, which had wanted to kill the BIS, suddenly finds it indispensable."

Up until the late 1970s, the central bankers sought such complete anonymity for their activities that they maintained their headquarters in an abandoned six-story hotel, the Grand et Savoy Hotel Universe, with an annex above the adjacent Frey's Chocolate Shop. Since there purposely was no sign over the door to identify the BIS, visiting central bankers and gold dealers used Frey's, which is across the street from the railroad station, as a convenient landmark.

In the wood-paneled rooms above the shop and hotel, decisions were reached to devalue or defend currencies, to fix the price of gold, to regulate offshore banking, and to raise or lower short-term interest rates. And though the bank shaped a new world order, the public, even in Basel, remained almost totally unaware of its activities.

A rare guided tour

The BIS had relaxed some this passion for secrecy and, against the better judgment of some of its members, moved to a more efficient eighteen-story cylindrical skyscraper, when I was invited to its

headquarters in 1983 by Karl Otto Pohl, who, as president of the German central bank, belonged to the inner club of the BIS. Earlier, I had interviewed Pohl for *Institutional Investor* magazine, and he had complained to me, over a bratwurst-and-beer lunch on the top floor of the Bundesbank in Frankfurt, about the repetitiousness of the meetings he had to attend at the BIS.

“First, there is the meeting on the Gold Pool, then, after lunch, the same faces show up at the G-10. The next day there is the board which excludes the U.S., Japan, and Canada, and then the European Community meeting, which excludes Sweden and Switzerland. But these meetings are not where the real business gets done,” he said. That was done at the “inner club” that included Pohl. Since Pohl was telling me about his power, at the end of our leisurely lunch I asked him if he could arrange a visit for me. “Why not,” he answered, “You can interview its President Fritz Leutwiler.”

When I arrived in Basel the following week, there was no mistaking the BIS’ headquarters. Known as the “Tower of Basel” it rose over the medieval city like some misplaced nuclear reactor. I was immediately taken to Dr. Leutwiler’s office, which, despite his power, was modest in size. He began the interview by apologizing for the prominence of the bank’s new venue: “That was the last thing we wanted. If it had been up to me, it never would have been built.”

Despite its irksome visibility, the building has some practical advantages over its predecessor over a chocolate shop, he conceded. For one thing, it is completely air-conditioned and self-contained, with its own nuclear-bomb shelter in the sub-basement, a triply redundant fire-extinguishing system (so outside firemen never have to be called in), a private hospital, and some twenty miles of subterranean archives.

While we talked, his eyes never left the Reuters screen in his office, which signaled currency fluctuations around the globe. He then provided me with a tour of the building. Gunther Schleiminger, the general manager, escorted me around the different levels, and provided a revealing commentary about the layout of one of the financial world’s most secretive institutions.

The top floor, with a panoramic view of three countries, Germany, France, and Switzerland, contained a deluxe restaurant, used only to serve the members a buffet dinner on Sunday evenings when they arrive to begin the “Basel weekends.”

Aside from those ten occasions, this floor remained ghostly empty. The next three floors down were the suites of offices reserved for the central bankers. On the next floor was the BIS computer, which, for 1983, was state of the art. It was directly linked to the computers of the member central banks and provided instantaneous access to data about the global monetary situation.

The gold room

On the floor beneath it was the actual bank, where 18 traders, mainly from England and Switzerland, were busy rolling over short-term loans on the Eurodollar markets. They spoke mainly English. Finally, on the lowest floor, gold was being hectically traded.

Traders were constantly on the telephone arranging loans of the bank’s gold to international arbitragers,

thus allowing central banks to earn interest on gold deposits. Indeed, the BIS is prohibited by its statutes from making anything but short-term loans. So almost all the gold-backed trades were for 30 days.

To back their trades, these traders had roughly one-tenth of the world's gold supply. According to Dr. Leutwiler, the profits the BIS received on this trading had amounted to \$162 million the previous year.

But why were the central banks using the BIS to trade their gold? The German Bundesbank, for example, has a superb international trading department and 15,000 employees—at least 20 times as many as the BIS staff. The answer was, of course, secrecy.

By commingling part of their reserves in what amounts to a gigantic mutual fund of short-term investments, the central banks created a convenient screen behind which they can hide their own deposits and withdrawals in financial centers around the world. And the central banks are apparently willing to pay a modest fee to use the cloak of the BIS. They also provided it with a large enough profit to support the other services it provided them.

On paper, the BIS was a small, technical organization with just 86 of its 298 employees ranked as professional staff in 1983. But artfully concealed within this outer shell, like a series of Chinese boxes one inside another, were the operations that truly required the support of the world's central bankers.

The first box inside the bank is the board of directors, drawn from the eight European central banks (England, Switzerland, Germany, Italy, France, Belgium, Sweden, and the Netherlands), which meets on the Tuesday morning of each "Basel weekend."

The board also meets twice a year in Basel with the central banks of other nations. It provides a formal apparatus for dealing with European governments and international bureaucracies like the IMF or the European Economic Community. The board defines the rules and territories of the central banks with the goal of preventing governments from meddling in their purview, including setting the ratio of bank reserves to loans.

To deal with the world at large, there is another Chinese box dealing with the "G-10." This powerful group, which controls most of the transferable money in the world, meets for long sessions on the Monday afternoon of the "Basel weekend."

It is here that broader policy issues, such as interest rates, money-supply growth, economic stimulation (or suppression), and currency rates are discussed.

Directly under the G-10, and catering to all its special needs, is a small unit called the "Monetary and Economic Development Department," which serves in effect, as its private think tank. This unit produces the occasional blue-bound "economic papers" that provide central bankers from Singapore to Rio de Janeiro, even though they are not BIS members, with a convenient party line.

'No use for politicians'

Finally, there is the inner club, made up of the half dozen or so powerful central bankers. Even when the BIS is not holding a meeting, they are in constant contact with each other by phone. And they all speak the same language when it comes to governments, having shared similar experiences. "Some of us are very old friends," Pohl said, and share the same set of well articulated values about money.

One such value is the firm belief that central banks should act independently of their home governments. A second shared value, according to Pohl, is that politicians should not be trusted to decide the fate of the international monetary system. When Leutwiler became president of the BIS in 1982, he insisted that no government official be allowed to visit during a "Basel weekend." "To be frank," he said, "I have no use for politicians. They lack the judgment of central bankers."

This effectively sums up the common antipathy of the inner club toward "government muddling," as Pohl termed it at our Bundesbank lunch. The other value shared by the inner club is the conviction that when the bell tolls for any single central bank, it tolls for them all. "We are constantly engaged in a balancing act without a safety net," Leutwiler explained.

When Mexico faced bankruptcy in the early 1980s, the issue for the inner club was not the welfare of that country but the stability of the entire banking system. It was clearly an emergency for the inner club. Even though the IMF was prepared to step in, it would require months of paperwork to get approval for the loan, and Mexico needed an immediate \$1.85 billion.

After speaking to Miguel Mancera, director of the Banco de Mexico, then-Fed Chairman Paul Volcker called Leutwiler, who was vacationing in the Swiss mountain village of Grison. Leutwiler realized that the entire system was confronted by a financial time bomb. In less than 48 hours, Leutwiler had called the members of the inner club and arranged the temporary bridging loan.

While the loan appeared in the financial press to have come from the BIS, virtually all the funds came from the central banks in the inner club. The BIS merely provided a convenient cloak for the central bankers; Volcker and other members would have to take the political heat individually for what appeared to be the rescue of an underdeveloped country.

The BIS has not changed that much since my visit 28 years ago. Although Russia, China and other new players now send observers to meetings in Basel, the inner club still runs it. And that club still remains true to its mission of rescuing the banking system from politicians.