Bank of England: Warning of a Debt Crash— or Covering Up a Bigger Threat?

January 29, 2019—As the failing British elite shows its incapacity to implement the British people's vote for a Brexit — a revolt against economic austerity imposed by that same elite — some ominous statements by the Bank of England about the state of "junk debt" and "leveraged loans" have gone almost unnoticed. They have certainly not been examined to see what the London-centered banking system as a whole is faced with, even if a "disorderly" Brexit doesn't crash the derivatives markets and the City of London banks.

First the Bank testified Jan. 18 to the House of Commons Finance Committee — which was completely distracted by the Brexit parliamentary chaos anyway — that indices of risky, deteriorating corporate "leveraged loans" amounted to $1.3 trillion worth. Leveraged loans are loans to companies that don't have the revenue to take them or repay them. Then it became clear the Bank was actually saying it was a $2.2 trillion (U.S. and European) bubble, because many of the worst-indebted of these companies were not included in these "indices" which made the $1.3 trillion. The $2.2 trillion was bigger than the 2007 U.S. subprime mortgage securities bubble, the Bank acknowledged, and 25% of it was in the form of super-risky collateralized loan obligations, which all the central banks are warning loudly about now, because they blew out in 2008.

Don't worry, the Bank said, 80% of these toxic loans are held by non-banks and shadow banks (i.e., investment banks, hedge funds, etc.), and so there is LESS danger than if commercial banks held them. The major banks are OK, it said, even as middle-sized banks have been failing in Europe from Italy to UK, and some big ones like Deutsche Bank are on the edge.

BUT the Bank issued a release at the same time, saying that there was a "leveraged loans" problem in China, and most of China's toxic corporate loans are also held by non-banks and shadow banks. But the Bank said this meant that there is a GREATER danger there than if commercial banks held them. The reason: Shadow banks are less capitalized, less regulated.

The Bank of England was telling the truth about China's leveraged loan problem, but obviously lying about the trans-Atlantic financial system's dangerous bubble, more than twice as big! Add $1.5-2 trillion in junk bonds to those leveraged loans, and the Wall Street-London "junk debt" bubble is four times that in China. And because there is no Glass-Steagall bank separation in the United States or Europe, the shadow banks borrow heavily from the big commercial banks, so the contagion is spreading.

This bubble is going to blow up! Reinstating Glass-Steagall will shield commercial bank credit, and the economy, from the explosion. It is part of Lyndon LaRouche's four new laws to save the nation; it enables the process of issuing national credit for productive activity.

The Schiller Institute, led by Helga Zepp-LaRouche, is mobilizing two urgent actions while this financial crash is threatening. First, U.S. citizens must defeat the British-led attempt to drive President Trump out of office with fantastic "Russian agent" charges. Second, with the President able to act, an agreement for a new "Bretton Woods" international credit system has to be initiated exactly by the United States and China, together with at least Russia and India. Keep London sidelined; 50 years ago it ruined Franklin Roosevelt's original Bretton Woods.