



Simon Johnson Speaks About “The Next Financial Meltdown” at CARTAC’s Crisis Management Conference

There will be another financial crisis of a global scale. This is the view of the Dr. Simon Johnson, the Central Bank of Barbados’ 3rd Distinguished Visiting Fellow.

Speaking on the first day of CARTAC’s conference on “Building Resilience to Financial Crises in the Caribbean: the Role of Crisis Management Policies, Metrics and Plans”, the former chief economist at the IMF said that while it was uncomfortable to think about, the next crisis could be of a similar magnitude or even greater.

Johnson contrasted the situation in 1995, when the six biggest banks in the USA had assets totalling less than 20% of that country’s GDP to the present day where JP Morgan Chase alone has assets totalling almost 20% of the USA’s GDP and asserted that the big banks in the United States had become too large, too complicated and too opaque.

He added that another major cause for concern was the fact that the vast majority of these banks’ assets is in debt, not equity, citing an asset make up of 97% debt and 3% equity for some banks, even post crisis.

Johnson acknowledged that there had been some regulatory changes since the financial meltdown of 2007-2009, but argued that much of it is typical of what he terms the “Doomsday Cycle”. Describing the cycle, Johnson explained that a financial crisis prompts increased regulation, which is soon followed by the industry leveraging its influence to successfully lobby for decreased regulation. When losses do occur, the financial system is bailed out, and this explicit and implicit subsidizing of the industry becomes an incentive to take excessive risks, ultimately resulting in another crisis. This cycle persists because politics plays a major role in regulatory decisions, and the economic power of large US banks has resulted in a great deal of political influence.

The idea of politics as a spoiler when it comes to responses to crises is something Johnson advised the conference participants to consider in their planning. He commended the local and regional regulatory bodies for doing stress testing, but encouraged them to go beyond the numbers and to adopt a war room approach where they play out the politics for each scenario.

Johnson concluded by reiterating that the most recent crisis was not the first nor would it be the last and that while the US financial system is somewhat safer it is still not safe enough. He pointed out that despite all that was done to mitigate the crisis, the USA still experienced a big recession and warned that other countries might not be so lucky.

Simon Johnson will discuss this and other topical issues during the 90-minute Caribbean Economic Forum, which is entitled “What’s Next for the Global Economy?” The forum will be broadcast live across the region on Tuesday, March 22, 2016 at 8:05 p.m.

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