

Tower of Basel: The Shadowy History of the Secret Bank that Runs the World

June 3, 2014

Tower of Basel is the first investigative history of the world's most secretive global financial institution. Based on extensive archival research in Switzerland, Britain, and the United States, and in-depth interviews with key decision-makers.



First unofficial meeting of the BIS Board of Directors in Basel, April 1930



The following is an excerpt from [TOWER OF BASEL: The Shadowy History of the Secret Bank that Runs the World](#)^[55] by Adam LeBor. Reprinted with permission from PublicAffairs.

The world's most exclusive club has eighteen members. They gather every other month on a Sunday evening at 7 p.m. in conference room E in a circular tower block whose tinted windows overlook the central Basel railway station. Their discussion lasts for one hour, perhaps an hour and a half. Some of those present bring a colleague with them, but the aides rarely speak during this most confidential of conclaves. The meeting closes, the aides leave, and those remaining retire for dinner in the dining room on the eighteenth floor, rightly confident that the food and the wine will be superb. The meal, which continues until 11 p.m. or midnight, is where the real work is done. The protocol and hospitality, honed for more than eight decades, are flawless. Anything said at the dining table, it is understood, is not to be repeated elsewhere.

Few, if any, of those enjoying their haute cuisine and grand cru wines— some of the best Switzerland can offer—would be recognized by passers-by, but they include a good

number of the most powerful people in the world. These men—they are almost all men—are central bankers. They have come to Basel to attend the Economic Consultative Committee (ECC) of the Bank for International Settlements (BIS), which is the bank for central banks. Its current members [ZH: as of 2013] include Ben Bernanke, the chairman of the US Federal Reserve; Sir Mervyn King, the governor of the Bank of England; Mario Draghi, of the European Central Bank; Zhou Xiaochuan of the Bank of China; and the central bank governors of Germany, France, Italy, Sweden, Canada, India, and Brazil. Jaime Caruana, a former governor of the Bank of Spain, the BIS's general manager, joins them.

In early 2013, when this book went to press, King, who is due to step down as governor of the Bank of England in June 2013, chaired the ECC. The ECC, which used to be known as the G-10 governors' meeting, is the most influential of the BIS's numerous gatherings, open only to a small, select group of central bankers from advanced economies. The ECC makes recommendations on the membership and organization of the three BIS committees that deal with the global financial system, payments systems, and international markets. The committee also prepares proposals for the Global Economy Meeting and guides its agenda.

That meeting starts at 9:30 a.m. on Monday morning, in room B and lasts for three hours. There King presides over the central bank governors of the thirty countries judged the most important to the global economy. In addition to those who were present at the Sunday evening dinner, Monday's meeting will include representatives from, for example, Indonesia, Poland, South Africa, Spain, and Turkey. Governors from fifteen smaller countries, such as Hungary, Israel, and New Zealand are allowed to sit in as observers, but do not usually speak. Governors from the third tier of member banks, such as Macedonia and Slovakia, are not allowed to attend. Instead they must forage for scraps of information at coffee and meal breaks.

The governors of all sixty BIS member banks then enjoy a buffet lunch in the eighteenth-floor dining room. Designed by Herzog & de Meuron, the Swiss architectural firm which built the "Bird's Nest" Stadium for the Beijing Olympics, the dining room has white walls, a black ceiling and spectacular views over three countries: Switzerland, France, and Germany. At 2 p.m. the central bankers and their aides return to room B for the governors' meeting to discuss matters of interest, until the gathering ends at 5.

King takes a very different approach than his predecessor, Jean-Claude Trichet, the former president of the European Central Bank, in chairing the Global Economy Meeting. Trichet, according to one former central banker, was notably Gallic in his style: a stickler for protocol who called the central bankers to speak in order of importance, starting with the governors of the Federal Reserve, the Bank of England, and the

Bundesbank, and then progressing down the hierarchy. King, in contrast, adopts a more thematic and egalitarian approach: throwing open the meetings for discussion and inviting contributions from all present.

The governors' conclaves have played a crucial role in determining the world's response to the global financial crisis. "The BIS has been a very important meeting point for central bankers during the crisis, and the rationale for its existence has expanded," said King. "We have had to face challenges that we have never seen before. We had to work out what was going on, what instruments do we use when interest rates are close to zero, how do we communicate policy. We discuss this at home with our staff, but it is very valuable for the governors themselves to get together and talk among themselves."

Those discussions, say central bankers, must be confidential. "When you are at the top in the number one post, it can be pretty lonely at times. It is helpful to be able to meet other number ones and say, 'This is my problem, how do you deal with it?'" King continued. "Being able to talk informally and openly about our experiences has been immensely valuable. We are not speaking in a public forum. We can say what we really think and believe, and we can ask questions and benefit from others."

The BIS management works hard to ensure that the atmosphere is friendly and clubbable throughout the weekend, and it seems they succeed. The bank arranges a fleet of limousines to pick up the governors at Zürich airport and bring them to Basel. Separate breakfasts, lunches, and dinners are organized for the governors of national banks who oversee different types and sizes of national economies, so no one feels excluded. "The central bankers were more at home and relaxed with their fellow central bankers than with their own governments," recalled Paul Volcker, the former chairman of the US Federal Reserve, who attended the Basel weekends. The superb quality of the food and wine made for an easy camaraderie, said Peter Akos Bod, a former governor of the National Bank of Hungary. "The main topics of discussion were the quality of the wine and the stupidity of finance ministers. If you had no knowledge of wine you could not join in the conversation."

And the conversation is usually stimulating and enjoyable, say central bankers. The contrast between the Federal Open Markets Committee at the US Federal Reserve, and the Sunday evening G-10 governors' dinners was notable, recalled Laurence Meyer, who served as a member of the Board of Governors of the Federal Reserve from 1996 until 2002. The chairman of the Federal Reserve did not always represent the bank at the Basel meetings, so Meyer occasionally attended. The BIS discussions were always lively, focused and thought provoking. "At FMOC meetings, while I was at the Fed, almost all the Committee members read statements which had been prepared in advance. They very rarely referred to statements by other Committee members and there was

almost never an exchange between two members or an ongoing discussion about the outlook or policy options. At BIS dinners people actually talk to each other and the discussions are always stimulating and interactive focused on the serious issues facing the global economy.”

All the governors present at the two-day gathering are assured of total confidentiality, discretion, and the highest levels of security. The meetings take place on several floors that are usually used only when the governors are in attendance. The governors are provided with a dedicated office and the necessary support and secretarial staff. The Swiss authorities have no jurisdiction over the BIS premises. Founded by an international treaty, and further protected by the 1987 Headquarters Agreement with the Swiss government, the BIS enjoys similar protections to those granted to the headquarters of the United Nations, the International Monetary Fund (IMF) and diplomatic embassies. The Swiss authorities need the permission of the BIS management to enter the bank’s buildings, which are described as “inviolable.”

The BIS has the right to communicate in code and to send and receive correspondence in bags covered by the same protection as embassies, meaning they cannot be opened. The BIS is exempt from Swiss taxes. Its employees do not have to pay income tax on their salaries, which are usually generous, designed to compete with the private sector. The general manager’s salary in 2011 was 763,930 Swiss francs, while head of departments were paid 587,640 per annum, plus generous allowances. The bank’s extraordinary legal privileges also extend to its staff and directors. Senior managers enjoy a special status, similar to that of diplomats, while carrying out their duties in Switzerland, which means their bags cannot be searched (unless there is evidence of a blatant criminal act), and their papers are inviolable. The central bank governors traveling to Basel for the bimonthly meetings enjoy the same status while in Switzerland. All bank officials are immune under Swiss law, for life, for all the acts carried out during the discharge of their duties. The bank is a popular place to work and not just because of the salaries. Around six hundred staff come from over fifty countries. The atmosphere is multi-national and cosmopolitan, albeit very Swiss, emphasizing the bank’s hierarchy. Like many of those working for the UN or the IMF, some of the staff of the BIS, especially senior management, are driven by a sense of mission, that they are working for a higher, even celestial purpose and so are immune from normal considerations of accountability and transparency.

The bank’s management has tried to plan for every eventuality so that the Swiss police need never be called. The BIS headquarters has high-tech sprinkler systems with multiple back-ups, in-house medical facilities, and its own bomb shelter in the event of a terrorist attack or armed conflagration. The BIS’s assets are not subject to civil claims under Swiss law and can never be seized.

The BIS strictly guards the bankers' secrecy. The minutes, agenda, and actual attendance list of the Global Economy Meeting or the ECC are not released in any form. This is because no official minutes are taken, although the bankers sometimes scribble their own notes. Sometimes there will be a brief press conference or bland statement afterwards but never anything detailed. This tradition of privileged confidentiality reaches back to the bank's foundation.

"The quietness of Basel and its absolutely nonpolitical character provide a perfect setting for those equally quiet and nonpolitical gatherings," wrote one American official in 1935. "The regularity of the meetings and their almost unbroken attendance by practically every member of the Board make them such they rarely attract any but the most meager notice in the press."⁸ Forty years on, little had changed. Charles Coombs, a former foreign exchange chief of the New York Federal Reserve, attended governors' meetings from 1960 to 1975. The bankers who were allowed inside the inner sanctum of the governors' meetings trusted each other absolutely, he recalled in his memoirs. "However much money was involved, no agreements were ever signed nor memoranda of understanding ever initialized. The word of each official was sufficient, and there were never any disappointments."

What, then, does this matter to the rest of us? Bankers have been gathering confidentially since money was first invented. Central bankers like to view themselves as the high priests of finance, as technocrats overseeing arcane monetary rituals and a financial liturgy understood only by a small, self-selecting elite.

But the governors who meet in Basel every other month are public servants. Their salaries, airplane tickets, hotel bills, and lucrative pensions when they retire are paid out of the public purse. The national reserves held by central banks are public money, the wealth of nations. The central bankers' discussions at the BIS, the information that they share, the policies that are evaluated, the opinions that are exchanged, and the subsequent decisions that are taken, are profoundly political. Central bankers, whose independence is constitutionally protected, control monetary policy in the developed world. They manage the supply of money to national economies. They set interest rates, thus deciding the value of our savings and investments. They decide whether to focus on austerity or growth. Their decisions shape our lives.

The BIS's tradition of secrecy reaches back through the decades. During the 1960s, for example, the bank hosted the London Gold Pool. Eight countries pledged to manipulate the gold market to keep the price at around thirty-five dollars per ounce, in line with the provisions of the Bretton Woods Accord that governed the post-World War II international financial system. Although the London Gold Pool no longer exists, its successor is the BIS Markets Committee, which meets every other month on the

occasion of the governors' meetings to discuss trends in the financial markets. Officials from twenty-one central banks attend. The committee releases occasional papers, but its agenda and discussions remain secret.

Nowadays the countries represented at the Global Economy Meetings together account for around four-fifths of global gross domestic product (GDP)—most of the produced wealth of the world—according to the BIS's own statistics. Central bankers now “seem more powerful than politicians,” wrote The Economist newspaper, “holding the destiny of the global economy in their hands.” How did this happen? The BIS, the world's most secretive global financial institution, can claim much of the credit. From its first day of existence, the BIS has dedicated itself to furthering the interests of central banks and building the new architecture of transnational finance. In doing so, it has spawned a new class of close-knit global technocrats whose members glide between highly-paid positions at the BIS, the IMF, and central and commercial banks.

The founder of the technocrats' cabal was Per Jacobssen, the Swedish economist who served as the BIS's economic adviser from 1931 to 1956. The bland title belied his power and reach. Enormously influential, well connected, and highly regarded by his peers, Jacobssen wrote the first BIS annual reports, which were—and remain—essential reading throughout the world's treasuries. Jacobssen was an early supporter of European federalism. He argued relentlessly against inflation, excessive government spending, and state intervention in the economy. Jacobssen left the BIS in 1956 to take over the IMF. His legacy still shapes our world. The consequences of his mix of economic liberalism, price obsession, and dismantling of national sovereignty play out nightly in the European news bulletins on our television screens.

The BIS's defenders deny that the organization is secretive. The bank's archives are open and researchers may consult most documents that are more than thirty years old. The BIS archivists are indeed cordial, helpful, and professional. The bank's website includes all its annual reports, which are downloadable, as well as numerous policy papers produced by the bank's highly regarded research department. The BIS publishes detailed accounts of the securities and derivatives markets, and international banking statistics. But these are largely compilations and analyses of information already in the public domain. The details of the bank's own core activities, including much of its banking operations for its customers, central banks, and international organizations, remain secret. The Global Economy Meetings and the other crucial financial gatherings that take place at Basel, such as the Markets Committee, remain closed to outsiders. Private individuals may not hold an account at BIS, unless they work for the bank. The bank's opacity, lack of accountability, and ever-increasing influence raises profound questions— not just about monetary policy but transparency, accountability, and how power is exercised in our democracies.

* * *

WHEN I EXPLAINED to friends and acquaintances that I was writing a book about the Bank for International Settlements, the usual response was a puzzled look, followed by a question: “The bank for what?” My interlocutors were intelligent people, who follow current affairs. Many had some interest in and understanding of the global economy and financial crisis. Yet only a handful had heard of the BIS. This was strange, as the BIS is the most important bank in the world and predates both the IMF and the World Bank. For decades it has stood at the center of a global network of money, power, and covert global influence.

The BIS was founded in 1930. It was ostensibly set up as part of the Young Plan to administer German reparations payments for the First World War. The bank’s key architects were Montagu Norman, who was the governor of the Bank of England, and Hjalmar Schacht, the president of the Reichsbank who described the BIS as “my” bank. The BIS’s founding members were the central banks of Britain, France, Germany, Italy, Belgium, and a consortium of Japanese banks. Shares were also offered to the Federal Reserve, but the United States, suspicious of anything that might infringe on its national sovereignty, refused its allocation. Instead a consortium of commercial banks took up the shares: J. P. Morgan, the First National Bank of New York, and the First National Bank of Chicago.

The real purpose of the BIS was detailed in its statutes: to “promote the cooperation of central banks and to provide additional facilities for international financial operations.” It was the culmination of the central bankers’ decades-old dream, to have their own bank—powerful, independent, and free from interfering politicians and nosy reporters. Most felicitous of all, the BIS was self-financing and would be in perpetuity. Its clients were its own founders and shareholders—the central banks. During the 1930s, the BIS was the central meeting place for a cabal of central bankers, dominated by Norman and Schacht. This group helped rebuild Germany. The New York Times described Schacht, widely acknowledged as the genius behind the resurgent German economy, as “The Iron-Willed Pilot of Nazi Finance.” During the war, the BIS became a de-facto arm of the Reichsbank, accepting looted Nazi gold and carrying out foreign exchange deals for Nazi Germany.

The bank’s alliance with Berlin was known in Washington, DC, and London. But the need for the BIS to keep functioning, to keep the new channels of transnational finance open, was about the only thing all sides agreed on. Basel was the perfect location, as it is perched on the northern edge of Switzerland and sits almost on the French and German borders. A few miles away, Nazi and Allied soldiers were fighting and dying. None of that mattered at the BIS. Board meetings were suspended, but relations between the BIS

staff of the belligerent nations remained cordial, professional, and productive. Nationalities were irrelevant. The overriding loyalty was to international finance. The president, Thomas McKittrick, was an American. Roger Auboin, the general manager, was French. Paul Hechler, the assistant general manager, was a member of the Nazi party and signed his correspondence “Heil Hitler.” Raffaele Pilotti, the secretary general, was Italian. Per Jacobssen, the bank’s influential economic adviser, was Swedish. His and Pilotti’s deputies were British.

After 1945, five BIS directors, including Hjalmar Schacht, were charged with war crimes. Germany lost the war but won the economic peace, in large part thanks to the BIS. The international stage, contacts, banking networks, and legitimacy the BIS provided, first to the Reichsbank and then to its successor banks, has helped ensure the continuity of immensely powerful financial and economic interests from the Nazi era to the present day.

* * *

FOR THE FIRST forty-seven years of its existence, from 1930 to 1977, the BIS was based in a former hotel, near the Basel central railway station. The bank’s entrance was tucked away by a chocolate shop, and only a small notice confirmed that the narrow doorway opened into the BIS. The bank’s managers believed that those who needed to know where the BIS was would find it, and the rest of the world certainly did not need to know. The inside of the building changed little over the decades, recalled Charles Coombs. The BIS provided the “the spartan accommodations of a former Victorian-style hotel whose single and double bedrooms had been transformed into offices simply by removing the beds and installing desks.”

The bank moved into its current headquarters, at 2, Centralbahnplatz, in 1977. It did not go far and now overlooks the Basel central station. Nowadays the BIS’s main mission, in its own words, is threefold: “to serve central banks in their pursuit of monetary and financial stability, to foster international cooperation in these areas, and to act as a bank for central banks.” The BIS also hosts much of the practical and technical infrastructure that the global network of central banks and their commercial counterparts need to function smoothly. It has two linked trading rooms: at the Basel headquarters and Hong Kong regional office. The BIS buys and sells gold and foreign exchange for its clients. It provides asset management and arranges short-term credit to central banks when needed.

The BIS is a unique institution: an international organization, an extremely profitable bank and a research institute founded, and protected, by international treaties. The BIS is accountable to its customers and shareholders—the central banks—but also guides their operations. The main tasks of a central bank, the BIS argues, are to control the flow of credit and the volume of currency in circulation, which will ensure a stable business

climate, and to keep exchange rates within manageable bands to ensure the value of a currency and so smooth international trade and capital movements. This is crucial, especially in a globalized economy, where markets react in microseconds and perceptions of economic stability and value are almost as important as reality itself.

The BIS also helps to supervise commercial banks, although it has no legal powers over them. The Basel Committee on Banking Supervision, based at the BIS, regulates commercial banks' capital and liquidity requirements. It requires banks to have a minimum capital of eight percent of risk-weighted assets when lending, meaning that if a bank has risk-weighted assets of \$100 million it must maintain at least \$8 million capital. The committee has no powers of enforcement, but it does have enormous moral authority. "This regulation is so powerful that the eight percent principle has been set into national laws," said Peter Akos Bod. "It's like voltage. Voltage has been set at 220. You may decide on ninety-five volts, but it would not work." In theory, sensible housekeeping and mutual cooperation, overseen by the BIS, will keep the global financial system functioning smoothly. In theory.

The reality is that we have moved beyond recession into a deep structural crisis, one fueled by the banks' greed and rapacity, which threatens all of our financial security. Just as in the 1930s, parts of Europe face economic collapse. The Bundesbank and the European Central Bank, two of the most powerful members of the BIS, have driven the mania for austerity that has already forced one European country, Greece, to the edge, aided by the venality and corruption of the country's ruling class. Others may soon follow. The old order is creaking, its political and financial institutions corroding from within. From Oslo to Athens, the far right is resurgent, fed in part by soaring poverty and unemployment. Anger and cynicism are corroding citizens' faith in democracy and the rule of law. Once again, the value of property and assets is vaporizing before their owners' eyes. The European currency is threatened with breakdown, while those with money seek safe haven in Swiss francs or gold. The young, the talented, and the mobile are again fleeing their home countries for new lives abroad. The powerful forces of international capital that brought the BIS into being, and which granted the bank its power and influence, are again triumphant.

The BIS sits at the apex of an international financial system that is falling apart at the seams, but its officials argue that it does not have the power to act as an international financial regulator. Yet the BIS cannot escape its responsibility for the Euro-zone crisis. From the first agreements in the late 1940s on multilateral payments to the establishment of the European Central Bank in 1998, the BIS has been at the heart of the European integration project, providing technical expertise and the financial mechanisms for currency harmonization. During the 1950s, it managed the European Payments Union, which internationalized the continent's payment system. The BIS hosted the Governors'

Committee of European Economic Community central bankers, set up in 1964, which coordinated trans-European monetary policy. During the 1970s, the BIS ran the “Snake,” the mechanism by which European currencies were held in exchange rate bands. During the 1980s the BIS hosted the Delors Committee, whose report in 1988 laid out the path to European Monetary Union and the adoption of a single currency. The BIS midwived the European Monetary Institute (EMI), the precursor of the European Central Bank. The EMI’s president was Alexandre Lamfalussy, one of the world’s most influential economists, known as the “Father of the euro.” Before joining the EMI in 1994, Lamfalussy had worked at the BIS for seventeen years, first as economic adviser, then as the bank’s general manager.

For a staid, secretive organization, the BIS has proved surprisingly nimble. It survived the first global depression, the end of reparations payments and the gold standard (two of its main reasons for existence), the rise of Nazism, the Second World War, the Bretton Woods Accord, the Cold War, the financial crises of the 1980s and 1990s, the birth of the IMF and World Bank, and the end of Communism. As Malcolm Knight, manager from 2003–2008, noted, “It is encouraging to see that—by remaining small, flexible, and free from political interference—the Bank has, throughout its history, succeeded remarkably well in adapting itself to evolving circumstances.”

The bank has made itself a central pillar of the global financial system. As well as the Global Economy Meetings, the BIS hosts four of the most important international committees dealing with global banking: the Basel Committee on Banking Supervision, the Committee on the Global Financial System, the Committee on Payment and Settlement Systems, and the Irving Fisher Committee, which deals with central banking statistics. The bank also hosts three independent organizations: two groups dealing with insurance and the Financial Stability Board (FSB). The FSB, which coordinates national financial authorities and regulatory policies, is already being spoken of as the fourth pillar of the global financial system, after the BIS, the IMF and the commercial banks.

The BIS is now the world’s thirtieth-largest holder of gold reserves, with 119 metric tons—more than Qatar, Brazil, or Canada. Membership of the BIS remains a privilege rather than a right. The board of directors is responsible for admitting central banks judged to “make a substantial contribution to international monetary cooperation and to the Bank’s activities.” China, India, Russia, and Saudi Arabia joined only in 1996. The bank has opened offices in Mexico City and Hong Kong but remains very Eurocentric. Estonia, Latvia, Lithuania, Macedonia, Slovenia, and Slovakia (total population 16.2 million) have been admitted, while Pakistan (population 169 million) has not. Nor has Kazakhstan, which is a powerhouse of Central Asia. In Africa only Algeria and South Africa are members—Nigeria, which has the continent’s second-largest economy, has not been admitted. (The BIS’s defenders say that it demands high governance standards

from new members and when the national banks of countries such as Nigeria and Pakistan reach those standards, they will be considered for membership.)

Considering the BIS's pivotal role in the transnational economy, its low profile is remarkable. Back in 1930 a New York Times reporter noted that the culture of secrecy at the BIS was so strong that he was not permitted to look inside the boardroom, even after the directors had left. Little has changed. Journalists are not allowed inside the headquarters while the Global Economy Meeting is underway. BIS officials speak rarely on the record, and reluctantly, to members of the press. The strategy seems to work. The Occupy Wall Street movement, the anti-globalizers, the social network protesters have ignored the BIS. Centralbahnplatz 2, Basel, is quiet and tranquil. There are no demonstrators gathered outside the BIS's headquarters, no protestors camped out in the nearby park, no lively reception committees for the world's central bankers.

As the world's economy lurches from crisis to crisis, financial institutions are scrutinized as never before. Legions of reporters, bloggers, and investigative journalists scour the banks' every move. Yet somehow, apart from brief mentions on the financial pages, the BIS has largely managed to avoid critical scrutiny. Until now.