

development projects. Under this plan, the EMS-member and Japanese central banks, who hold some \$100 billion, would loan out "development dollars" at a government-subsidized 5 percent, half the going world dollar interest rate, to create demand for hard dollar investments. U.S. corporations would be urged to borrow, too.

Starting with Chase Manhattan Bank Chairman David Rockefeller's call Dec. 6 for lower interest rates, the U.S. business community seems to have warmed to the plan. A major business think tank told *NSIPS* it was studying the idea yesterday, while the Dec. 13 *Journal of Commerce* reported one facet of the dollar-recycling plan under the headline "EC Making New Attempt to Revive Export-Import Bank."

For the record, Miller this June was reported by worried West German banking sources to be circulating a joint memo together with Bank of England Governor Gordon Richardson, calling for an alternative Euromarket reform plan which would shut down the dollar as the reserve currency. They proposed U.S. banks be forced to raise their interest rates through the imposition of reserve requirements on the Eurodollar market, which would force American banks out of the international lending competition. They also proposed that the IMF okay all new loans, and that SDRs be substituted in for dollars—all of which was supposed to reduce the mushrooming dollars held overseas.

Questioned by a correspondent from this newsservice in Frankfurt, Miller yesterday disassociated himself completely from the Richardson sell out. "We must be careful," he said, "which plan we choose. After we have acted to stabilize the dollar, we can choose" the better plan. Corporate sources reported yesterday that Miller has told them more bluntly that the Richardson format is now "dead—totally unworkable."

Miller followed this up with a plug for a rising dollar, reversing his statement of early December that the dollar had "peaked." The uncertainty on foreign exchange markets due to unrest in Iran "has gone too far," he said. "It would be appropriate for the dollar to be somewhat higher, with potential for further appreciation as improved fundamentals become apparent in the period ahead."

Miller's shift may well swing the entire Carter Administration toward the EMS, Washington sources close to the National Security Council said, after last week's favorable statements from the State Department on the new monetary system. But it is apparent that only continued healthy political pressure from the U.S. business community—which ought to be joined by U.S. labor—will keep the Administration on the track.

—Kathy Burdman

## Japan: fighting in the shadows

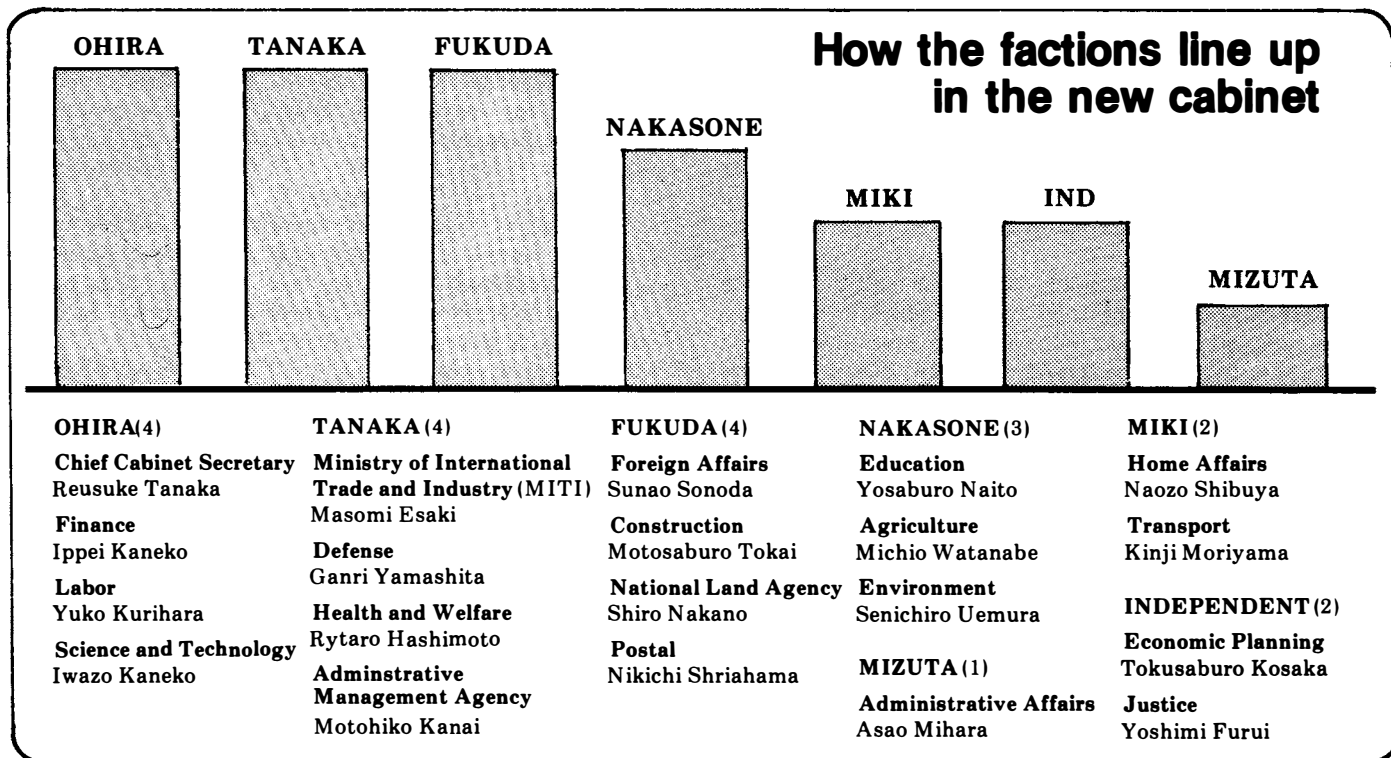
A top Japanese political reporter summed up the current situation in Japan after Masayoshi Ohira's elevation to Prime Minister last week. He remarked that now there existed two cabinets in Japan, the official cabinet announced by Ohira and the "shadow cabinet" of ruling Liberal Democratic Party (LDP) and business power brokers who were still warring with each other to make government policy.

The fight within the shadow cabinet of Japan is fundamentally centered around how Japan will respond to the European Monetary System. On one side there are the forces of the Mitsui bank networks and Mitsui's allies in the high-finance Shibusawa family who pushed their long time protege Masayoshi Ohira into power in one of the worst "dirty money" elections in Japan's history. These political and business networks are dead set on reversing the policies outlined by Prime Minister Takeo Fukuda who strongly supported a Japanese-German alliance to bring the EMS perspective to Asia.

Allied against the EMS's detractors are the forces of former Prime Minister Fukuda and his intraparty allies Yasuhiro Nakasone and Takeo Miki. This group enjoys the overwhelming support of Japan's heavy industry businessmen like Nippon Steel and Nippon Steel's major bank, the Industrial Bank of Japan. It is these industrialist forces which today are exerting their own pressure on Ohira to make sure that Japan continues the economic policies of the Fukuda government.

Last week the EMS forces in Japan won a major victory when it was reported that Ohira had decided to create a three-man task force led by Kiichi Miyazawa, a Fukuda ally and head of the Economic Planning Agency under Fukuda, to plan the upcoming Tokyo economic summit. Even more important than Miyazawa, however, is the decision of Takashi Hosomi to join the task force. Hosomi, a former high official of the "German school" inside the Ministry of Finance, is today a top advisor for the dirigist Industrial Bank of Japan. The third task force member is Nobuhiko Ushiba, Fukuda's Minister for External Economic Affairs and a leading Foreign Ministry bureaucrat who is also a known political enemy of Ohira's.

On virtually the same day that reports began to circulate about the appointment of the new summit task force, London's allies in Tokyo launched a major slander and disinformation campaign about Japan's true position toward the EMS. Late last week unnamed officials from Japan's Ministry of Finance leaked a story to the *Mainichi Daily News* saying that the EMS was "not only redundant but unwelcome in the interests of the world economy and international currency stability." The officials said that



the November announcement of President Carter's policy to defend the dollar combined with Federal Reserve chairman Miller's antibusiness "inflation control" policy "has already provided a strong enough remedy for the chaotic international foreign exchange market developments." The Ministry of Finance leak comes from a section of the Ministry wholly dominated by the Mitsui Bank networks.

Although Masayoshi Ohira has been presented in the Western press as a purely "Japanese" politician who is a virtual unknown in the West and whose policies would be little different from Fukuda, there was no missing the major significance of an Ohira victory in key circles in the United States and London.

The elation of top anti-EMS policy-making circles with Ohira's victory was best expressed by Harvard Professor Edwin O. Reischauer, an advisor to the Carter Administration on Asian affairs and U.S. Ambassador to Japan under the Kennedy Administration. In an interview last week Reischauer stressed that Ohira's victory "represents a great opportunity" for the United States, the implications of which Washington has yet to fully understand.

Reischauer provided a psychological profile of Ohira stressing both the new Prime Minister's loyalty to Washington as well as his cunning. He labeled Ohira as "the cleverest and at the same time paradoxically the most honest" of Japan's politicians, "much more a man of principle than Fukuda" and a man who would be "a very strong and lasting Prime Minister."

The real nature of Ohira's "dirty money" politics against Fukuda and the role Peking and London played in

financing Fukuda's defeat has continued to emerge in the two weeks since the election. According to rumors now circulating in the Japanese business community, the Peking-owned Bank of China used the Hong Kong and Shanghai Bank to launder money to Ohira's electoral campaign.

It has also been learned that in the 1930s Ohira was a protege of a Ministry of Finance official named Shima who was an agent of the Mitsuis. Shima spent the 1930s in New York and London, working closely with the then head of the Ministry of Finance, Sehin Ikeda, himself a top Mitsui official and the self-described "Hjalmar Schacht of Japan." This Mitsui clique was key in sponsoring the fascist "Strike North" group inside Japan's military which tried throughout the 1930s to push Japan into a war with the Soviet Union at London's behest. Today the inheritors of the Mitsui outlook want to use China as another marcher lord against Russia.

A Japanese banker in New York summed up Masayoshi Ohira's attitude to the EMS saying that "Ohira is trying to undermine the EMS. Ohira is not interested in the EMS." According to the banker, one of Ohira's top economic advisors, Osamu Shimomura, is arguing that Japan should simply focus on Southeast Asia and avoid getting involved in European politics.

The return of Japan to the role of a "cautious" plodding nonentity in international affairs is a line directly supported by Henry Kissinger. Kissinger gave out his "low profile" line on how Japan should behave in a recent interview with the *Yomiuri* newspaper. Kissinger said that if Japan took an aggressive diplomatic role (i.e., one outside

the dictate of London and Washington) "there is a great danger that you exaggerate and scare everybody after that. I think that Japanese policy will be more effective if it is restrained, than if it is extremely assertive, because that will unite all the people who were afraid of the previous policy." Kissinger added, "I think one of your troubles in the thirties was that you were trying to imitate the high posture of other countries, which does not come naturally to you."

The "low profile" outlook Kissinger called for was expressed clearly in the men Ohira picked for his new official cabinet. But the announcement last week of the industrialist-oriented taskforce for the Tokyo summit gives every indication that the pro-EMS forces in Japan's "shadow cabinet" are determined to fight back, and that the fight has just begun.

#### **The "low profile" Ohira cabinet**

The new Ohira cabinet is more remarkable for what it does not contain than for what it does.

It lacks any cabinet member with a political understanding of the world outside Japan. The one exception is Sunao Sonoda, Fukuda's Foreign Minister, who was maintained in that post by Ohira.

Ohira's decision to keep Sonoda, however, was largely due to the fact that Sonoda, although a Fukuda faction member, maintains a close personal relationship with the Ohira faction, especially Ohira's number-two man Zenko Suzuki. Sonoda nonetheless does represent an influence which will help ensure the continuation of Fukuda's diplomatic policies.

Unfortunately, Sonoda is weakest intellectually when it comes to economic affairs and Ohira maintains very tight control on the new cabinet's economic policy making. The new Finance Minister Ippei Kaneko is a former finance ministry bureaucrat who has been a protege of Ohira's since 1960 when Kaneko first won a seat in Japan's

parliament. The head of the Economic Planning Agency, Tokusaburo Kosaka, although officially an independent, is a total political opportunist with strong ties to the New York banking community. Given the presence of both Ohira and Kosaka in the cabinet, one Japanese reporter gloomily commented: "I do not see how Japan can resist the pressure from Washington."

The rest of the cabinet members are almost totally unknown outside Japan and twelve members (over one-half of the cabinet) have never held a cabinet post before. Many of them were chosen merely to ensure a balanced cabinet from the standpoint of internal LDP factional policies rather than for their skills. The new cabinet is almost perfectly balanced factionally with four Ohira ministers, four Tanaka men (Tanaka was Ohira's major LDP supporter), four Fukuda people, and three supporters of Yasuhiro Nakasone and two backers of former Prime Minister Takeo Miki.

Despite this apparent surface harmony of factions inside the cabinet the Liberal Democratic Party itself is now in the midst of a bitter "power struggle" which has yet to be resolved. Fukuda, still extremely powerful, effectively blocked Ohira's first choice for the position of LDP secretary general, the most important post inside the party and the one that controls party finances. The new LDP secretary general, Kunikichi Saito, although a member of the Ohira faction, is not considered to be a strong leader. Meanwhile a Fukuda faction member, Takao Kuraishi, managed to get the number two post inside the party, as head of the LDP's executive board. A Miki man, Toshio Komoto, got the party's policy planning post.

But the major behind-the-scenes struggle for power inside the LDP revolves around the fight between Fukuda and Ohira's top political ally, Kakuei Tanaka. These are the two men whose unity is essential if Japan is to return to an openly pro-European Monetary System position.

—Kevin Coogan