

How London, Kissinger, and Don Regan caused Japan's bank crisis

by Kathy Wolfe

On June 6 of this year, the Bank of Japan revealed higher official estimates of bad loans at Japan's largest 150 banks of 40 trillion yen (\$400 billion), of which Y22.5 trillion (\$225 billion) was at the 21 largest "city" bank and trusts. During July and August, the Anglo-American investment banks in Tokyo told the media that actual bankrupt loans stood at Y80 trillion (\$800 billion), in the estimate of Morgan Stanley, or up to Y100 trillion (\$1 trillion), in the estimate of Salomon Brothers. Alicia Ogawa, research director for Salomon Brothers Tokyo, flew to Washington to repeat this estimate before the House Banking Committee on Oct. 16.

On Aug. 21, three major Anglo-American groups, Moody's Financial Services, the International Monetary Fund (IMF), and Standard and Poor's, issued reports warning of serious conditions at Japanese banks. By early October, there was a "slow run" against Japanese banks in the London Eurodollar market, as depositors pulled out, forcing Japanese banks to pay premiums for cash.

Yet this is not a "Japan problem. . . . We are facing a global crash," as *EIR* Founding Editor Lyndon LaRouche emphasized recently. Japanese banks and government agencies hold over \$500 billion in U.S. Treasury bonds, and "the Federal Reserve fears a major fall of the Treasury market" if more depositors pull out of Japanese banks, one New York banker told *EIR* News Service on Oct. 19. It is the United States which is the net debtor, and Japan is the creditor, as House Banking Committee Chairman Jim Leach (R-Iowa) noted on Oct. 16.

It is also the case that while a staggering amount of paper in Japan may be rotten, the *physical* economy of Japan is in better shape than that of most countries. As LaRouche said in his recent Presidential campaign policy paper "The Blunder in U.S. Security Policy," if we apply "a strict standard of land-use for the comparison" of the United States, Germany, and Japan, Japan stands out for its high per-square-kilometer technological progress, productivity, energy use, and infrastructural development, which is directly related to its high population density. Banking isn't everything.

This report will show that Japan's bank crisis was the direct result of the same British monetarism which has bankrupted the United States and the world financial system.

The Brzezinski doctrine

"The crucial problem with Japan goes back to the Brzezinski doctrine of 1978," LaRouche said recently, when leaders in Japan, Germany, and other nations had planned heavy industrial investments in Ibero-America, Asia, and Africa, to create large export markets.

But Henry Kissinger's London controllers sought to deindustrialize the West, and prevent the poor nations from industrialization, LaRouche said. "Henry Kissinger and U.S. National Security Adviser Zbigniew Brzezinski told Japan: 'You cannot help Mexico, because we in the U.S. will not tolerate a new Japan below the Rio Grande,'" LaRouche noted. Japan was ordered to junk its plans for exports of heavy infrastructure capital goods to Mexico, Iran, Brazil, and the Mideast, and instead sell consumer goods to the United States.

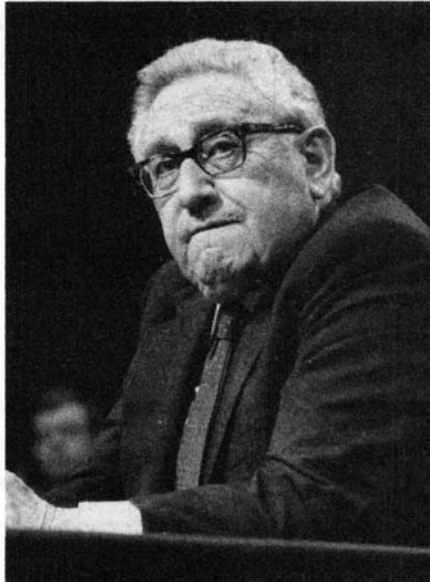
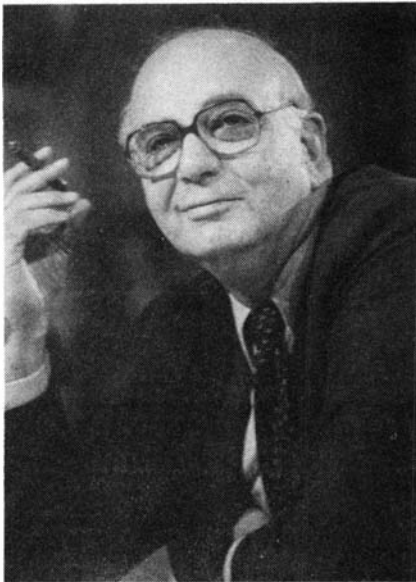
Under threat of losing the protection of the U.S. nuclear umbrella, Tokyo acquiesced.¹ In 1975, Japanese exports to Third World countries were growing, and were higher than those to the United States and other industrial areas of the Organization for Economic Cooperation and Development (OECD). After Brzezinski's 1978 demand, they slowed down, and then fell into decline (**Figure 1**). Instead, Japan's exports were shifted to the United States, Europe, and Australia.

Japan's Global Infrastructure Fund, sponsored by the Mitsubishi Research Institute, cancelled plans for \$500 billion investment in rail, water, and power infrastructure in underdeveloped nations. Instead, Japan put two-thirds of its foreign investment into consumer goods and real estate in the United States and Europe (**Figure 2**). Within Europe, Japan has over a third of its investment in Great Britain, over \$40 billion.

This is more graphic when viewed over time (**Figure 3**). The volume of Japan's global private investment skyrocketed after 1985, but not to the Third World, where it was needed.

That is, those Japanese trade surpluses with the United

1. Urged to support *EIR*'s program for 1,000 new nuclear-powered cities in China, one architect of Japan's Global Infrastructure Fund development plan told *EIR* in 1994, "You are asking me to declare war on the U.S. State Department. No, thank you. One Hiroshima was enough."



Architects of the banking crisis in Japan include, left to right: former Federal Reserve Chairman Paul Volcker, former Secretary of State Henry Kissinger, and former Treasury Secretary and White House Chief of Staff Donald Regan.

States of the 1980s, of which the media love to complain, were created deliberately by Henry Kissinger and his London mentors. Since London and Wall Street had closed down U.S. production and tax receipts, the American budget deficit went out of control.

Just as Kissinger, London's Shell Oil, and the British banks created the 1973 oil shock, and the huge Arab "petrodollar" accounts in London, now Japan would be the new Saudi Arabia: They wished to use Japan as a cash cow, to prop up U.S. debt and real estate markets.

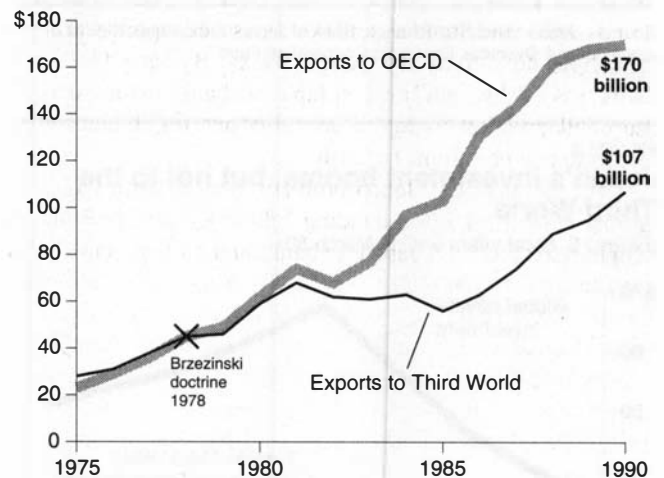
On top of trade surpluses, Kissinger and former Treasury Secretary Donald Regan, head of Merrill Lynch and acknowledged spokesman for Wall Street, in 1985 created a deliberate crash of the dollar, in order to jack up the value of the yen. This not only priced Japan's exports further out of reach of the poor countries, but also created an even larger paper pool in Tokyo, a pool of yen which could fund many more times its weight in dollar assets around the world.

The Kissinger-Regan group also sought to use this "super-yen" to create a financial cancer *within Japan*.

During a series of Tokyo trips in 1984 and 1985, Kissinger, Treasury Secretary and later White House Chief of Staff Donald Regan, and later Treasury Secretary James Baker demanded that Japanese officials force up the yen and accept a major devaluation of the dollar.² In January 1985, American Express Chairman J.D. Robinson III and Amex board member Kissinger led a delegation to Tokyo, which demand-

2. Don Regan was treasury secretary, and Baker White House chief of staff, in the first Ronald Reagan administration. When they switched hats in 1985, Regan, the master of Wall Street, in effect added control of the White House, to control over Treasury policy.

FIGURE 1
Japan's exports, by geographical area
(billions \$)



Source: Japan Ministry of Finance.

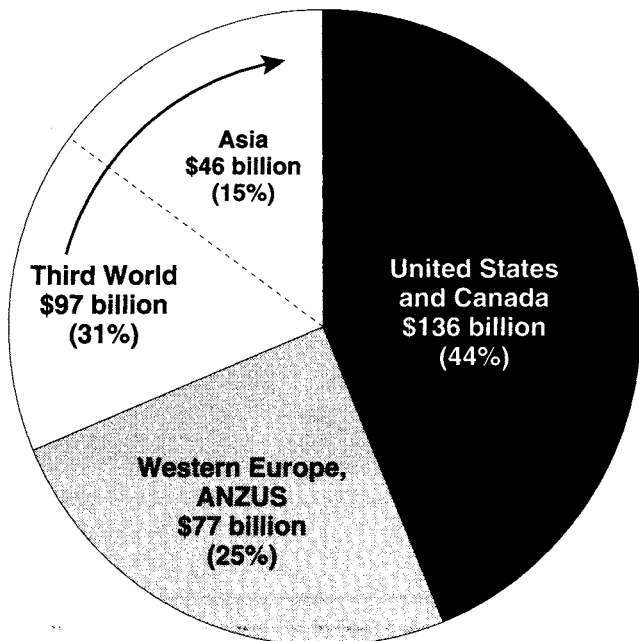
ed total deregulation of Japan's domestic markets. "We want to see the large-scale liberalization of the yen market in Tokyo," an Amex banker told *EIR*, "which, combined with new electronic technologies, will mean a worldwide financial market" which not governments, but only private bankers, could control.³ They were speaking, of course, of their plans

3. *EIR*, Feb. 11, 1985, p. 9.

FIGURE 2

Where Japan put its money: foreign direct investment (FDI), 1951-90

(billions \$)



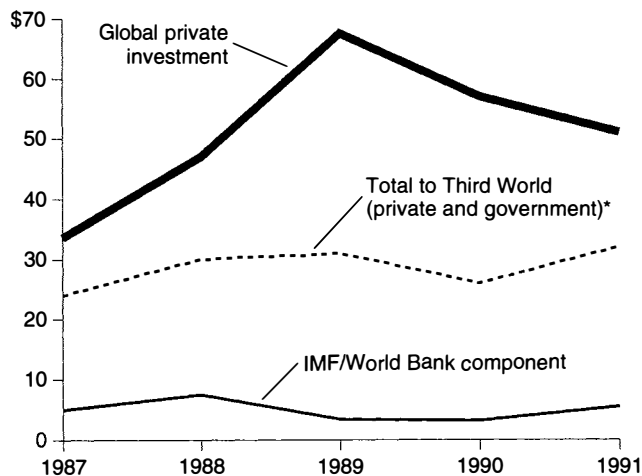
Cumulative global total = \$311 billion

Sources: Japan Ministry of Finance, Bank of Japan, Export-Import Bank of Japan, Japan Overseas Economic Cooperation Fund.

FIGURE 3

Japan's investment booms, but not to the Third World

(billions \$, fiscal years ending March 30)



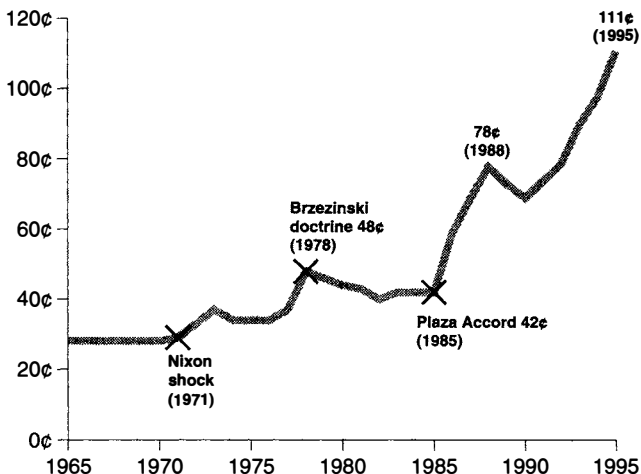
*Includes all Japanese private sector capital investment, Japan Ex-Im Bank loans, and Japanese government aid (ODA).

Sources: Japan Ministry of Finance, Bank of Japan, Export-Import Bank of Japan, Japan Overseas Economic Cooperation Fund.

FIGURE 4

Plaza Accord and Japan's yen rise

(U.S. cents per 100 yen, annual average)



Source: International Monetary Fund, "International Financial Statistics."

to create the international derivatives market, now grown so vast.

The Plaza Accord

On Sept. 19, 1985, at New York's Plaza Hotel, Regan and Baker forced a meeting of Group of Seven finance ministers and central bankers to sign the "Plaza Accord," upvaluing the yen and other currencies against the dollar. Commerce Secretary Malcolm Baldrige, a Regan cohort, publicly stated that the dollar should collapse by 25% against the yen.⁴

The London and Wall Street bankers of the "free market" complied. Within months, by 1986, the yen rose by 40%, from 42¢ per 100 yen, to 59¢ (Y239/\$ to Y169/\$). The Plaza Accord's dislocation of the yen, dwarfed the rise in the yen created by what Tokyo called the "Nixon shock"—president Richard Nixon's devaluation of the dollar, by its removal from the gold standard, on Aug. 15, 1971. From the September 1985 Plaza Accord, to 1988, the yen rose 86%, to 78¢ per 100 yen, and the rise continues to this day (Figure 4).

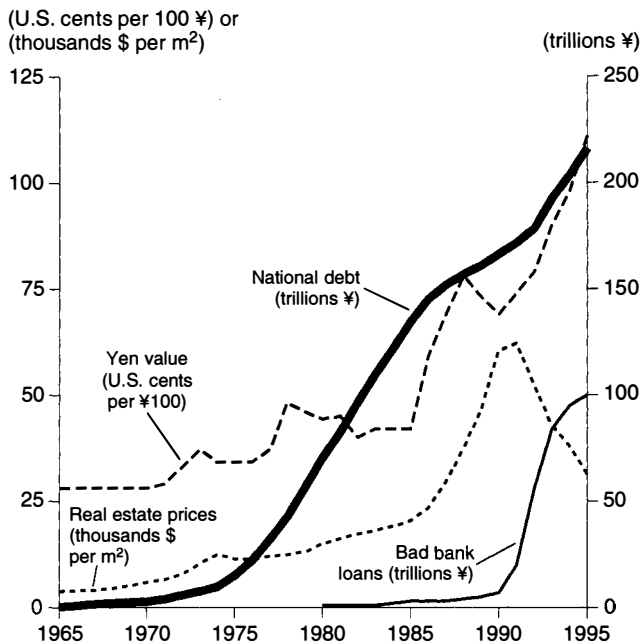
The Plaza Accord and the policies which the Regan mafia demanded with it, created an enormous dislocation in the Japanese economy. Viewing some of the worst consequences—the rise of the yen/dollar rate, the growth of Japan's national debt, the bubble and crash of Japanese real estate, and the growth of bankrupt loans at Japanese banks—it is easy to see that this picture is of one piece (Figure 5). We will discuss each of these in turn shortly.

First, however, notice who benefits in the United States. Many Americans are fixated on the national debt, which,

4. *EIR*, Oct. 4, 1985, p. 63.

FIGURE 5

Composite picture: the Brzezinski doctrine, the Plaza Accord, and Japan's bubble



Sources: IMF; Japan Ministry of Finance; Bank of Japan; *Japan Statistical Yearbook*; Salomon Brothers, Tokyo; Merrill Lynch, Tokyo; EIR estimates.

by January 1996, will be at \$5 trillion. How many remember that, before Federal Reserve Chairman Paul Volcker raised interest rates in 1980, and Donald Regan became Treasury secretary in January 1981, the United States *had* no national debt to speak of?

Regan and Volcker virtually created the U.S. national debt. From 1965 until Volcker hiked the Fed's discount rate from 6% to 19% in the last weeks of 1979, the U.S. national debt rose only from \$257 billion to \$658 billion. That's a good bit, but not something an economy the size of the U.S. economy couldn't handle. During 1980, the first year of Volcker's hikes, it rose to \$737 billion (Figure 6).

From January 1981, to the end of the Don Regan regime in 1988, however, the debt rose to over \$2 trillion. The treasury secretary did not have to play ball with the psychotic chairman of the Fed—but he did. Worse, Regan's own initiatives, such as the 1982 Financial Institutions Restructuring Act (see below), deliberately fostered speculation, much to Wall Street's paper profit.

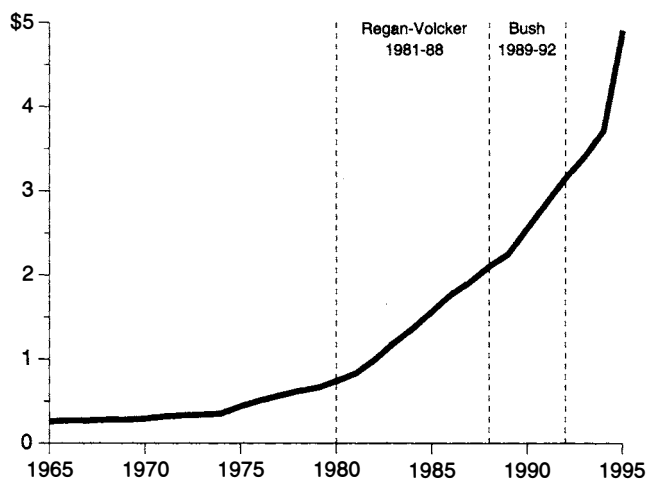
During the Bush administration, the debt rose further, to over \$3 trillion. This created a snowball effect, such that annual payment of interest alone on the debt comes to over \$200 billion, putting the growth of the deficit on "automatic pilot."

One result of the "super-yen" bubble created in Japan by

FIGURE 6

Don Regan and Paul Volcker create the U.S. national debt

(total U.S. national debt, trillions \$ at end of year)

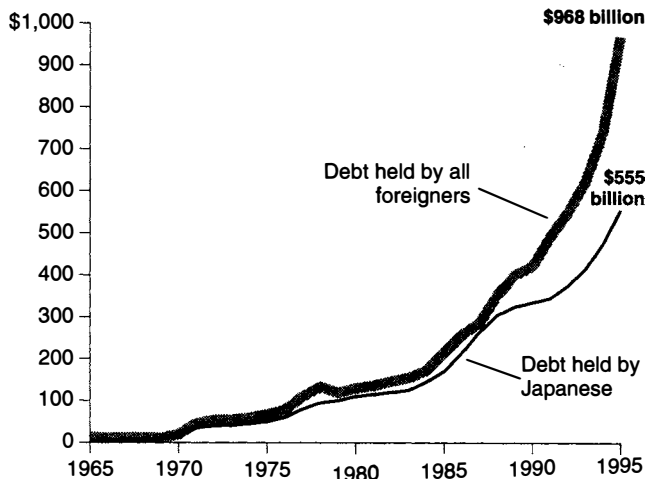


Sources: IMF, U.S. Treasury.

FIGURE 7

U.S. national debt held by all foreigners and by Japan

(billions \$)



Sources: IMF, Federal Reserve, U.S. Treasury, House Banking Committee, EIR estimates.

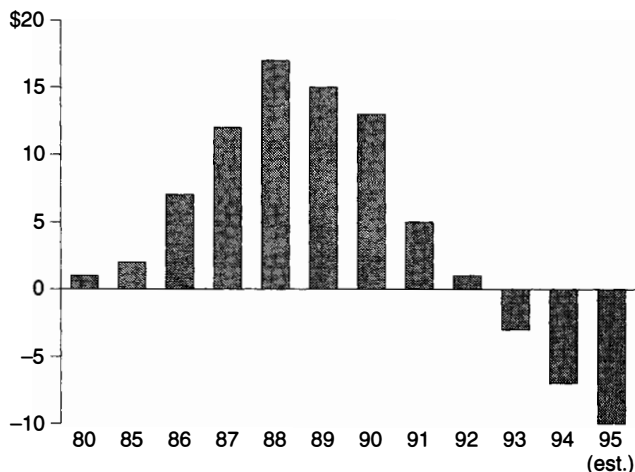
the Plaza Accord was, just as Kissinger and Regan planned, to ensure that Japan picked up much of the tab. Japanese private and government agencies have purchased fully 9.3% of all new U.S. Treasury debt issued since 1986, according to Representative Leach (Figure 7).

A second result was Regan's use of the "super-yen" to prop up the bankrupt U.S. real estate market. Between 1985

FIGURE 8

Japanese real estate purchases in the United States

(billions \$)



Source: E&Y/Kenneth Levanthal.

and 1992, Japanese investors purchased \$72 billion worth of speculatively inflated U.S. real estate, at the height of the U.S. real estate bubble—when U.S. investors were selling. Annual purchases in 1988 and 1989 were in the \$15-17 billion range, the only prop which kept American real estate from a crash (Figure 8).

Notice also that Figure 8 has the same profile as the rising and falling “bubble indicators” in Figure 5.

London creates the bubble

More insidiously, this London-Wall Street financial bubble spread a form of what was referred to in Tokyo as “financial AIDS,” inside Japan itself. One good indication was the rise of foreign exchange speculation in the Tokyo and Osaka financial centers. In 1970, before Nixon took the dollar off the gold standard, world foreign exchange trading was \$2.9 trillion annually, and world trade—imports plus exports—totalled \$593 billion. There was thus a ratio of about \$6 of foreign exchange trading, to every \$1 of trade.

After the “Nixon shock,” with floating rates, world foreign exchange trading increased four times faster than the increase in world trade, during the decade 1971-81. In Japan, as a trading nation having to “hedge” its contracts in a foreign currency, the dollar, it was far worse. By the time of the Plaza Accord in 1985, there was already over \$38 of foreign exchange trading going on in Japan, for every dollar of trade (Table 1).

After the Plaza Accord, this speculation almost doubled, by 1988, to \$62 of foreign exchange speculation, for every dollar of real trade. This was twice the foreign exchange speculation in the United States at the time. U.S. speculation

TABLE 1

Foreign exchange bubble versus Japan's merchandise trade

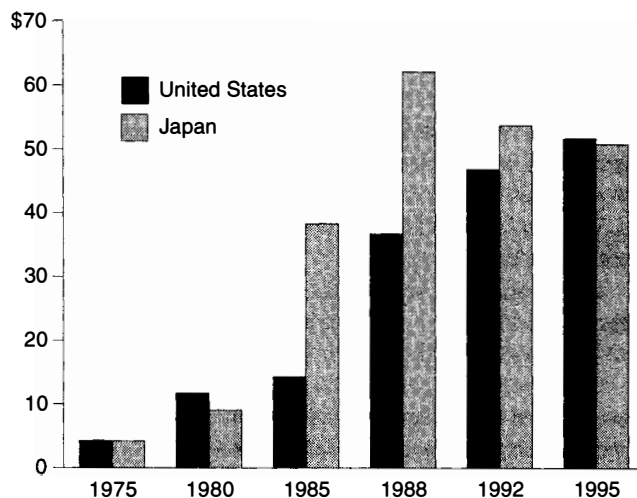
	1 Japan forex transactions annual rate (billions \$)	2 Japan imports plus exports (billions \$)	3 Japan forex \$ per trade \$ (1÷2)	4 Comparable U.S. ratio (EIR 9/15/95)
1975	\$ 488	\$115	\$ 4.2	\$ 4.3
1980	2,440	271	9.0	11.7
1985	11,712	306	38.3	14.3
1988	28,060	452	62.1	36.7
1992	30,744	573	53.7	46.8
1995	39,284	773	50.8	51.7

Sources: Anthony Wikrent, “Speculation takes over the U.S. economy,” *EIR*, Sept. 15, 1995; Bank for International Settlements; Bank of Japan; U.S. Federal Reserve Bank; Japan Ministry of Finance; U.S. Department of Commerce.

FIGURE 9

Japan and the United States: the foreign exchange bubble

(dollars of foreign exchange for each dollar of trade)



Sources: See Table 1.

has only recently reached such levels (Figure 9).

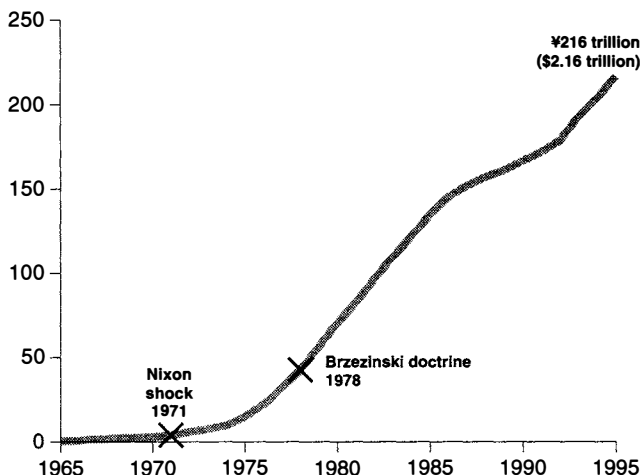
It was this Plaza Accord speculation which created today's mountain of bad Japanese bank loans, by creating Japan's “Bubble Economy” of 1986-91. Let us look at each of the elements of the composite in Figure 5.

The media cover story goes, that the Bank of Japan created the “Bubble Economy” by lowering interest rates in 1985, goading real estate companies, using cheap cash, into a speculative buy-up of limited urban real estate. This put Japanese

FIGURE 10

Japan's national debt

(trillions of yen)



real estate prices through the roof, which the Bank of Japan supposedly encouraged.

This cover story is nonsense. Reality is, that the Kissinger-Regan Plaza Accord deliberately created the Japanese bubble. Beginning in January 1986, the Bank of Japan did lower interest rates, but only as part of the Plaza agreement, under which Tokyo had promised to “reflate,” in a vain attempt to stimulate Japanese purchases of U.S. exports. Between the Plaza agreement to print many more yen, and to upvalue the dollar worth of each yen, Japan was hit hard.

On top of this, every six months, at every world summit, Japan was strong-armed into creating massive government spending packages, also supposed to stimulate “consumer spending” on imports of western consumer goods. This led to a very large rise in the Japanese national debt. All in all, since the enunciation of the “Brzezinski doctrine” in 1978, Japan’s national debt rose from Y43 trillion (\$430 billion) to Y216 trillion (\$2.16 trillion) today (Figure 10).

As LaRouche put it, “The U.S. said, ‘Since we won’t allow you Japanese to invest in the world, you’ll have to create an investment pool for all these dollars in Japan. What you must do is to inflate real estate prices to provide a nominal security system, assets, for the purpose of building up a giant financial bubble, on the basis of the flow of U.S. dollars into Japan. . . . So the income stream of Japan, was used to leverage a gigantic bubble in which the real estate interests of Japan, through a ground-rent operation, were converted into the nominal assets of this bubble, to secure this bubble.’”

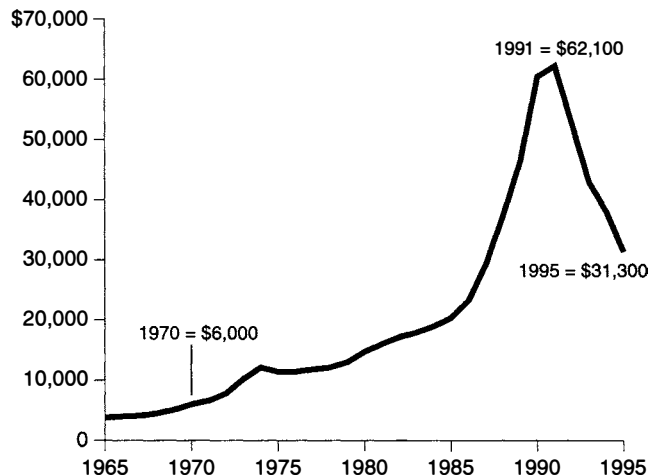
Real estate nightmare

Once the bubble began to grow, Japan’s urban land prices rose to insane heights. The average of residential, commer-

FIGURE 11

Japan's urban real estate price bubble

(urban real estate prices, \$ per m²)



Sources: Japan Ministry of Finance, Bank of Japan, *Japan Statistical Yearbook*.

cial, and industrial land prices in Japan’s six largest cities boomed from \$6,000 a square meter in 1970 to \$62,100 a square meter in 1991, a factor of ten, something unheard of anywhere in the world (Figure 11). This dwarfs New York average urban real estate prices at recent peaks of \$1,200 a square meter, and even peak London West End prices of \$13,400 a square meter.

Tokyo commercial real estate was particularly a speculative nightmare, rising from \$7,400 a square meter in 1980, to over \$100,000 in 1990.

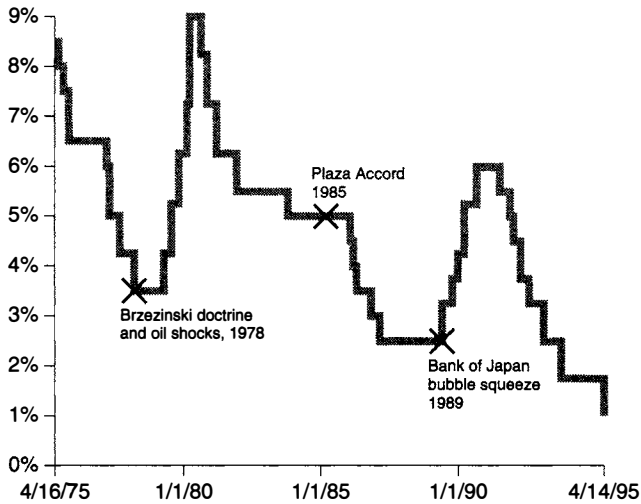
As the rest of the world economy shrank with the cancellation of major export projects, Japanese banks put billions into loans to domestic real estate and real estate finance companies. Japan’s top 150 commercial banks’ loans to real estate ballooned from Y17 trillion in 1985, to Y57 trillion (\$570 billion) in 1995, Bank of Japan figures show. Add to this, real estate loans by the rest of Japan’s savings, home loan, and other banks. University of Chicago Prof. Robert Aliber told the House Banking Committee on Oct. 16 that during this time, 25% of all new loans went to real estate, an increase of Y91 trillion (\$910 billion).

Alarmed by the madness, the Bank of Japan (BOJ) in 1989 began a credit squeeze, raising the discount rate from 2.5% in May 1989, to 6% by the end of 1990 (Figure 12).

The Ministry of Finance and BOJ also took regulatory measures to halt real estate speculation, including prohibiting further real estate loans of many kinds under Bank of Japan “window guidance.” In fall 1990, then-Finance Minister Ryutaro Hashimoto warned, that the continued demands by Wall Street and London for Japanese financial deregulation would mean the importation of “foreign financial AIDS” into Japan.

FIGURE 12

Bank of Japan central bank discount rate, 1975-95



Source: Japan Ministry of Finance.

As Figure 12 shows, the BOJ was simply doing as central bankers do: trying to walk the Aristotelian “middle path” for the rate of new cash entering the economy. If we mentally draw a line left to right through the center of Figure 12, it is clear the BOJ was targeting an old-fashioned, 1950s-style 5% bank rate.

After 1978, when Brzezinski announced his doctrine, the oil shocks and Volcker interest rate hikes briefly collapsed the yen (see Figure 4). The BOJ was forced to raise rates, to keep investors from dumping yen, starting in April 1979, from 3.5%, to 9%. As soon as possible, the BOJ lowered rates, to 5% by 1983.

In 1985, however, the Plaza Accord hit. Under its dictate, the United States and West Germany cut interest rates sharply, and Japan was asked to cut rates even further, and keep cutting.

By 1989, when the BOJ decided to tighten credit, to halt some of the speculation, too many bad loans were on the books. The damage was done. Since there was nothing supporting it, the real estate market collapsed (see Figure 11). With real estate borrowers going bankrupt by the dozens, Japanese bank loans quickly soured.

According to *EIR*'s estimates, based on data from Salomon Brothers, Merrill Lynch, Standard and Chartered, and other bankers in Tokyo and London, bad loans at Japanese banks rose from Y1 trillion in 1981, to Y100 trillion (\$1 trillion) by March 1995 (Figure 13).

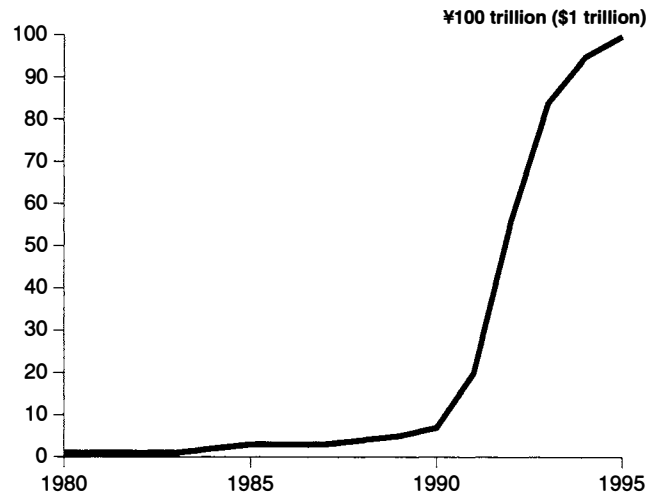
Loans go ‘post-industrial’

To appreciate the impact of this, one must get a feel for the size and structure of Japan’s banking system, the largest

FIGURE 13

Bad Japanese bank loans

(trillions of yen)

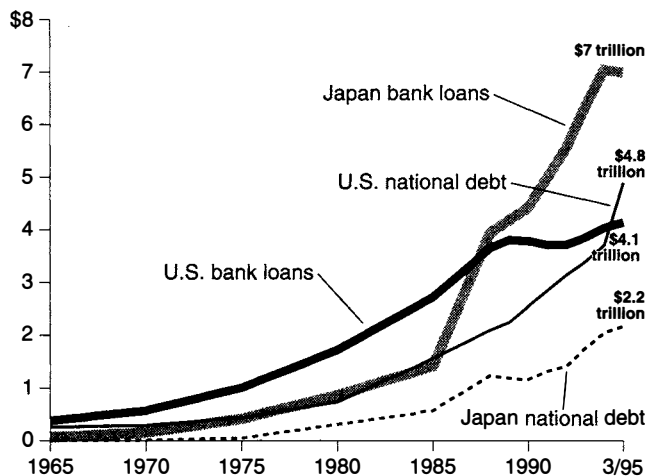


Sources: EIR estimates; Merrill Lynch, Tokyo; Salomon Brothers Tokyo; Standard & Chartered Bank, London.

FIGURE 14

‘Size is relative’: Japan’s loans and national debt, compared to the United States

(trillions \$)



Note: Bank loans for both Japan and the United States are total commercial and savings bank loans outstanding at the end of each period, as reported on the same basis by the IMF in “International Financial Statistics.”

Sources: IMF, U.S. Treasury, Japan Ministry of Finance.

in the world. Japan’s private banks have total loans of Y700 trillion (\$7 trillion). To put that in perspective, the U.S. private banking system, including commercial banks and the savings and loans, has \$4 trillion in loans, according to the

TABLE 2

Japanese bank loans, by bank type

(trillions of yen outstanding at end of period)

	Domestic loans			Foreign loans top 150	Shinkin banks	Credit unions	Nogyo (agricultural)	Jusen (home)	GRAND TOTAL
	Top 21	Regional banks	Top 150						
A. Total loans									
1965	14	5	19	0	2	0	2	0	23
1970	28	12	40	1	7	1	5	0	55
1975	62	27	89	3	16	2	11	0	123
1980	93	44	137	11	26	2	17	1	197
1985	167	70	237	28	37	6	22	3	338
1989	262	149	411	58	53	10	25	6	573
1990	279	162	441	75	59	13	29	9	641
1991	289	172	461	74	63	15	32	11	674
1992	296	176	472	72	67	19	38	13	703
1993	298	179	477	65	68	19	39	14	704
1994	298	180	478	63	68	19	40	14	704
March 1995	296	180	476	61	68	19	39	14	699
B. Bad loans									
1980	1								1
1985	2								3
1989	3								5
1990	3								7
1991	9								20
1992	24								56
1993	36								84
1994	39								95
March 1995	50		65		15		8	12	100

Bank types (number of institutions): top 21 and top 150 = major commercial banks; Shinkin = credit associations (savings banks) (421); Nogyo = agricultural cooperatives (2,625); Jusen = home loan companies (HLC) (8).

Sources: Bank of Japan; Japan Ministry of Finance; Salomon Brothers, Tokyo; Merrill Lynch, Tokyo; Standard & Chartered Bank, London; EIR estimates.

IMF's *International Financial Statistics*, calculated on the same basis. The U.S. national debt is almost \$5 trillion (**Figure 14**).⁵

Total Japanese bank lending is roughly equal to that by banks in Britain, France, and Germany combined.

Internally, Japan's banking system is highly structured. The largest top 21 commercial banks, those in major cities, have nearly Y300 trillion in loans (\$3 trillion) (**Table 2a**). Japan's six largest commercial banks, such as Sanwa and Sumitomo, are the six largest banks in the world, and 9 out of the 15 largest banks in the world are in Japan's top 21. Regional commercial banks in other cities are also quite large. Total top 150 commercial bank lending comes to Y476 trillion domestic loans, plus Y61 trillion foreign loans, or Y537 trillion (\$5.4 trillion).

There is another large sector, analogous to U.S. savings banks. These are the Y68 trillion savings banks or Shinkin; the Y19 trillion credit unions; the Y39 trillion agricultural coops, or Nogyo; the Y14 trillion home loan companies, or

Jusen; and other coops. They held Y140 trillion (\$1.4 trillion) in loans as of March 1995. This compares to U.S. thrifts' loans of \$1.1 trillion.

Banks per se are necessary, as Alexander Hamilton always argued, and large banks can be a national good. A major positive reason for the size of Japan's banks, is the extremely high savings rate in Japan, enforced by Ministry of Finance (MOF) tax and other regulations. According to the OECD, the "net savings" of Japanese citizens came to \$819 billion in 1993 (savings net of debt and loans, that is), which was 56% of that of the entire industrial world's, compared to U.S. "net savings" of \$75 billion, only 5% of the total.⁶

The question is: What is the quality of the banks' loans? For much of recent history, the MOF directed these gigantic savings to industry and new technologies, to create Japan's phenomenal industrial development.

The problems began in the 1980s. Note the enormous jump in total lending after the 1985 Plaza Accord, when the

5. This refers only to loans; total assets of Japan's private banks, including stocks and bonds, are over Y1,000 trillion (\$10 trillion) (not shown).

6. *OECD in Figures, 1995*, Organization for Economic Cooperation and Development, Paris.

TABLE 3

Loans made by Japan's top 150 commercial banks, by economic use

(loans outstanding at end of period)

	Domestic loans to:				Total domestic (trillions yen)	Foreign loans at overseas branches (trillions yen)
	Productive sectors		Non-productive sectors			
	(trillions yen)	(% of total)	(trillions yen)	(% of total)		
1965	20	63%	2	6%	32	—
1970	27	58%	4	9%	47	1
1975	45	51%	11	12%	89	3
1980	70	44%	31	19%	164	11
1985	90	38%	62	26%	237	28
1990	110	25%	163	37%	441	75
1991	120	26%	171	37%	461	74
1992	123	26%	175	37%	472	72
1993	129	27%	176	37%	477	65
1994	128	27%	178	37%	478	63
1995	125	26%	180	38%	476	61

Productive sectors: manufacturing, construction, utilities, transportation, and communication.

Non-productive sectors: finance and insurance, real estate, and services.

Not shown: loans to individuals, wholesale, and retail.

Source: Bank of Japan, "Economic Statistics Annual."

value of the yen rocketed up (Figure 14). In dollar terms, Japan's total loans almost quadrupled, from \$1.4 trillion to \$4.4 trillion in the five years after 1985.

The problem was, that during this period, Japan's banks shifted from primarily productive and industrial loans, to making "post-industrial" loans (Table 3).

Until 1965, over 63% of loans by the top 150 banks went to the productive sectors of the economy, which we define as manufacturing, agriculture, construction, utilities, transport, and communication. Only 6% of loans went to completely nonproductive sectors, such as finance, insurance, real estate, and services.

In 1975, the top 150 banks' loans to productive sectors were still more than half of the total. With the 1978 Brzezinski doctrine, loans to the productive sectors collapsed, and non-productive loans took off (Figure 15). By 1985, productive loans had fallen to 38% of the total, but they were still higher than nonproductive loans, which, however, rose to 26%.

After the 1985 Plaza Accord, the percentages actually reversed (Figure 16). By 1990, productive loans were down to 25%, and nonproductive loans were up to 37%, ratios which are maintained today.

Had Japan thus increased the size of its banking system, but ensured that this loan volume continued to be focussed on basic industry, science, and technology, the world would be a very different place today.

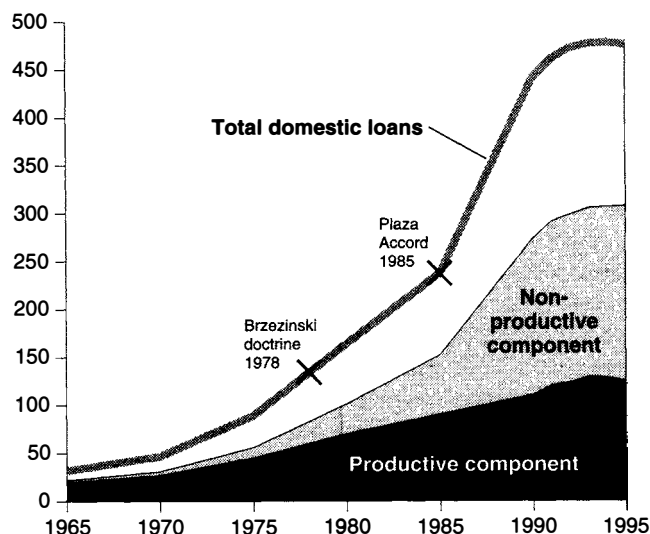
Where's the lemon?

When the bubble burst, however, this phenomenal growth of top 150 commercial bank loans stopped cold, and

FIGURE 15

Japan bank loans go 'post-industrial'

(domestic loans of 150 commercial banks, trillions of yen)



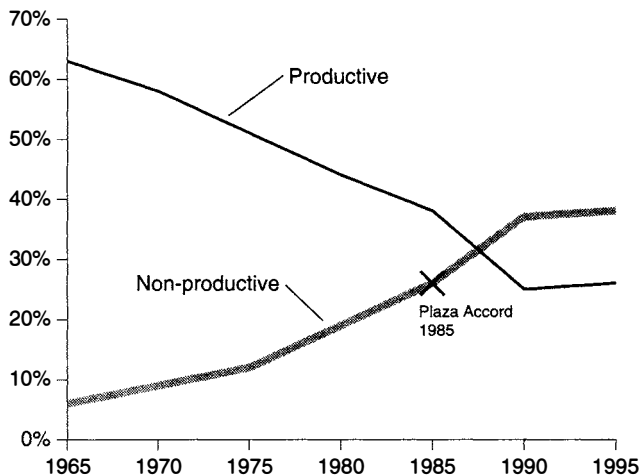
Comments and sources: See Table 3.

has begun to reverse—which is very dangerous. Beginning in 1992, as Figure 15 shows, total domestic loans by the top 150 banks ceased to grow. Nonproductive loans, however, continued a slow rise—so that productive loans actually began to fall. In the first quarter of 1995, top 150 bank total

FIGURE 16

Another view of Japan's post-industrial loans: domestic loans to productive and non-productive sectors, as percent of total

(loans of 150 commercial banks)



Comments and sources: See Table 3.

loans actually *fell*, for the first time in the postwar period, from Y478 trillion to Y476 trillion (see also Table 3). The same can be seen in the whole banking system in Table 2a, showing that grand total loans fell from Y704 trillion in 1994 to Y699 trillion in 1995.

This means new, productive loans, which could bring in cash to make up for sour loans—and help manufacturers on the edge to recover—are not being made.

To locate Y100 trillion in loans which have gone completely bad in this mess, is not difficult.

As Robert Aliber told the House Banking Committee, “bubble” loans made to Japan’s domestic real estate sectors were about 25% of the increase in grand total loans by all commercial and savings banks in Table 2, during the 1985-92 boom, or about Y90 trillion. Aliber also said that “a non-trivial part of the 75% of their additional loans will have their market value significantly affected by what is happening to the price of land,” i.e., were real estate related.

On top of this, Japanese banks jumped into the speculative Eurodollar market with both feet. Dollar-denominated loans made abroad to foreigners, by Japanese banks’ branches in London and New York, tripled, even in yen terms, i.e., without the exchange rate multiplier. Foreign loans by the top 150 commercial banks zoomed from Y28 trillion in 1985 to Y75 trillion in 1990 (Table 2a).

Who holds all the bad loans? As might be expected, the top 150 commercial banks hold some Y65 billion in bad loans, about 12% of their portfolios (Table 2b).

The situation of the non-commercials is worse, in propor-

tion. Shinkin savings banks and credit unions combined, have some Y15 trillion gone bad, which is 17% of their loans; bad loans at the agricultural banks (Nogyo) are almost 20% of loans, and the home loan companies, or Jusen, have 85% or more of loans which are worthless.

The Jusen are in the most explosive situation, since the bad loans at the Nogyo agricultural cooperatives are largely loans made in turn to the Jusen housing companies—which means the Jusen could set off a chain reaction. On Oct. 3, the Finance Ministry announced that seven of the eight Jusen will be liquidated.

The Jusen were set up by the commercial banks in the 1970s under Finance Ministry guidance, to build homes. Jusen do not take deposits, but rely heavily on loans from those commercial banks. Thus, the top 21 commercial banks will have to write off major losses—especially if the less liquid farm cooperatives are to be spared pain. Nihon Keizai news reported on Nov. 9 that a new company, apparently similar to the U.S. Resolution Trust Corp., will be set up, financed by the private banks, but also using taxpayers’ money, to take over the bad Jusen loans. Banks selling the bad loans would have to write down losses on them.

The bad loan totals continue to grow, despite the fact that Japanese banks have taken some rather large write-offs. During the fiscal years ending March 1993-95, Japan’s top 21 banks are projected to have written off, as pure losses, Y2-7 trillion (\$20-70 billion) a year in bad loans.

A classic Venetian bubble

How did Japan’s industrial planners let this happen? The profile is that of a classic “Venetian bubble.” Unless it is understood that this is an attack on the Japanese nation-state by London financiers, nothing makes sense.

Throughout history, Venetian financiers have used the trick of speculatively inflating a market, dislocating the local players—and then popping the same bubble, taking over the underlying assets, when the locals fall into panic. Using such methods, the bankers of Venice took over the City of London in the 17th century, and then Wall Street in the 19th century.⁷

Using Venetian methods, Merrill Lynch chairman Donald Regan *created* the U.S. savings and loan crisis—of which Japan’s real estate “bubble” is nearly a replica. As Regan’s friend Walter Wriston, chairman of Citibank, put it in 1982, Wall Street financiers wanted to take over the \$1.2 trillion in deposits then held in the savings and loans. In order to bankrupt their S&L competitors, Regan et al. deregulated them, and created a U.S. real estate loan bubble.

Once they were stuck, Wall Street and their friends at the Federal Reserve then *deflated* the U.S. real estate bubble, and the S&Ls all went bankrupt. The depositors fled, as

7. Lyndon H. LaRouche, Jr. “The Blunder in U.S. National Security Policy,” Committee to Reverse the Accelerating Global Economic and Strategic Crisis: A LaRouche Exploratory Committee, Oct. 11, 1995.

planned, to Wall Street.

London's hand is here seen openly. It was British Prime Minister Margaret Thatcher, the Bank of England, and the Basel-based Bank for International Settlements (BIS) that continuously demanded the global deregulation of the 1980s, which focussed on removing *usury laws* and *reserve requirements* worldwide.

In the United States, Thatcher et al. backed Regan and Wriston in demanding the removal of usury laws, such as Regulation Q. These forbade commercial banks to pay more than an average of 5% to depositors, while S&Ls could pay 0.5-1% more. This kept markets stable, and attracted funds for home building, since S&Ls had to put 80% of assets into 15- to 40-year home mortgages.

S&L mortgage loan rates were capped at 6-7%. S&Ls and banks also had to keep 5-10% of assets in cash on reserve with the central bank, as a safety cushion.

During the 1970s, however, the Bank of England and London banks created the Eurodollar market—deposits of dollars “offshore,” in London, outside all U.S. law. These had no restrictions on interest rates or reserve requirements, and were enormously speculative, but enormously profitable to the London banks. In 1978, after lobbying by Britain's Hongkong and Shanghai Banking Corp., which had just bought Marine Midland Bank, the United States allowed Eurodollar deposits, with no reserves, and no usury caps, into the United States, in “International Banking Facilities.”

After Fed Chairman Volcker raised U.S. interest rates to 19% and higher in late 1979, the demands from Wall Street for all interest rate usury laws and reserve laws to be removed—for the “Eurodollar-ization” of all U.S. deposits—crescendoeed. When Merrill Lynch Chairman Donald Regan, a strong backer of the “Thatcher Revolution,” went to Washington in January 1981, he and the new Senate Banking Committee chairman, Jake Garn (R-Utah), removed all regulation from the books, with their 1982 Financial Institutions Restructuring Act (FIRA).

Most people remember the S&L “rip-off,” in which taxpayers spent \$300 billion to bail out bankrupt S&Ls during the second half of the 1980s; but they don't remember the cause. It was excruciatingly simple. On the deposit side, after FIRA, with London banks paying depositors 10-15%, Wall Street began to do the same, in order to compete. Suddenly, S&Ls were “free”: Any S&L that failed to pay 10-15%, saw its depositors take a walk.

S&Ls were also suddenly “free” to charge 15-20% for loans and credit cards, just like Merrill Lynch or Citibank. S&Ls didn't have to make mortgages any more; they were free, to loan to junk bond schemes or any kind of speculation. But by law, for 50 years, S&Ls had made 15- to 40-year mortgages at 7%; in 1982, they had a chunk of such mortgages “stuck” on their books, for 20 years or more. How could they pay 15% to depositors, while earning only 7% on old mortgages? Answer: make all new loans to the most specula-

tive projects, in a desperate attempt to earn high interest wherever possible. Result: bankruptcy.

With constant pressure from the Bank of England and the BIS, Regan and Volcker forced Japan to pledge to the identical process, if it wished to remain a U.S. ally, at the height of the Cold War.

Regan in 1983 demanded that Japan's Ministry of Finance create the Yen/Dollar Working Group, with the U.S. Treasury, later renamed the U.S.-Japan Working Group on Financial Markets. From 1984 to 1988, Regan used this forum to pressure the MOF to publish a detailed plan for the deregulation of Japanese financial markets.⁸

Before 1984, Japan had the same sort of regulated interest rates and loan rates, as had the United States, before Regan. But from 1975-84, the size of the Euro-yen market—offshore yen deposits held in London and Hongkong—grew tremendously. Just as Eurodollars were outside U.S. law, so Euro-yen were outside Japanese law. Following Regan's demands, as published in the May 1984 report of the U.S.-Japan Working Group on Financial Markets, Japan lifted controls in June 1984, to allow Euro-yen deposits to be set up inside Japan, including by foreign banks, just as had been done under the demand of Britain's Hongkong and Shanghai Banking Corp. in the United States in 1978. These paid “global” high interest rates of 10% or more. Lawless Euro-yen deposits *inside Japan alone* zoomed to Y12 trillion by August 1988, some \$96 billion at 1988 rates.

Driven by high Euro-yen interest rates and Regan's pressure, from 1984-88, Japan slowly began to remove all interest rate controls, following the American road to hell. Grudgingly, the Ministry of Finance removed usury caps first on certain long-term deposits. By 1988, over Y100 trillion (\$800 billion) in domestic Japanese bank deposits were “free” to pay global double-digit rates, according to the 1989 *Japan Economic Almanac*. By October 1994, all remaining usury laws were abolished.

Regan's operation to create Japan's real estate bubble—knowing it would go bust—is a classic example of *Venetian methods*. Japan's banks are now in a similar monkey trap to that which destroyed the U.S. S&Ls. Of course, the trap only works if the victim behaves like a monkey, whose hand is stuck, by grasping the nut in the jar, attached to the trap. If he refuses to let go, he is caught. London and Wall Street now demand that Japan hold fast to the trap, play by the “free-market” rules, and deregulate further.

The London-Wall Street gang are also after the massive *assets* of the Japanese economy. To Japan's private banking system discussed thus far, we need to add Japan's government banking system, to which the United States has nothing to compare (not included in our charts). The Japanese Postal Savings system (“Kampo”) has assets of over Y300 trillion

8. “National Treatment Study” on foreign banking, U.S. Treasury, November 1990, pp. 207-240.

(\$3 trillion) and there are half a dozen other government funds of this magnitude, MOF statistics show. The total of such Japanese government fund assets is estimated at over Y1,900 trillion (\$19 trillion), according to Standard and Chartered Bank.

London's major demand at this point is that Japan use these taxpayers' assets to buy up the \$1 trillion in bad private bank loans, then deregulate the entire system—just as was done with the American S&Ls.

This, they hope, would allow the Anglo-American banks to expand operations in Japan, and grab Tokyo assets, as the S&Ls were targeted. Alicia Ogawa, research director of Salomon Brothers Tokyo, who has spoken so prominently of Japan's bad bank loans, insisted in her Oct. 16 House Banking testimony that the only solution now, is massive *further* deregulation.

So far, Tokyo is resisting total insanity. The "old men" behind the scenes at the Ministry of Finance and the top banks, in practice, continue a good amount of regulation, even without any regulatory laws on the books. Despite the lifting of the usury laws, Japan's banks have not begun a competition to raise interest rates at home. The Japan Fair Trade Commission recently even investigated banks for "interest rate fixing" and illegal cartel practices, but no charges were brought.

Japan, the U.S., and the global picture

Standing pat, however, is a losing proposition. Instead, Japan must reach an agreement with President Clinton, as Lyndon LaRouche has proposed, to declare the world monetary system bankrupt, and to create a new one.

While the media howl about Japan, the United States is even more bankrupt. Japan certainly has a far better asset-to-debt ratio than the United States. As Figure 14 shows, the U.S. national debt, for example, now outstrips all U.S. bank and S&L lending. Japan's banking loans and assets, however, dwarf its national debt.

Japan's \$1 trillion bad bank loans must also be compared with the rotten paper in the United States and Britain.

Despite the collapse of Barings Bank from derivatives, the Anglo-American media are oddly mute about the \$23 *trillion* in rotten derivatives investments held by U.S. banks, and an estimated \$10 trillion in derivatives held by British and Swiss Eurodollar market banks in London. Neither the IMF, Moody's, nor Standard and Poors has issued black marks against the U.S. or London banking systems. Compared with these, Japanese banks' derivatives holdings, estimated at \$5-6 trillion, are not quite so impressive.⁹

Actual bad loans at U.S. and British banks, *EIR* estimates, are \$500 billion to \$1 trillion, and of \$1.5 trillion in British bank loans, some \$200 billion are bad.

9. Estimates by *EIR* Economics Staff, corroborated by Mitsubishi Bank in Tokyo and International Swap Dealers Association (ISDA) in New York.

It is because of the impact of Japan's banks *on the United States*, that the Federal Reserve will provide emergency cash to Japanese banks here, as House Banking Committee Chairman Leach said on Oct. 16. The U.S. government "is prepared to cooperate fully with Japanese authorities to facilitate, in any emergency, liquidity for Japanese banks operating in the United States," Leach told the House.

This "leak" was made because the Fed fears a crash of *U.S. debt and banking markets themselves*, a New York banker told *EIR* on Oct. 19. The Fed "is very fearful of a major fall of the U.S. Treasury debt market," he said.

This is "an agreement to bail out the Treasury—not to bail out Japan," the banker said. "The greater problem is that the debate on the U.S. budget is deadlocked, the deficit is out of control, the debt ceiling is under cross-fire, and the U.S. has a \$4 trillion national debt. Don't forget: It's Japan who is the creditor, and we who are the debtor. A quarter of U.S. debt, perhaps \$1 trillion, is held by foreigners, and of that, Japan has \$600 billion or more."

If a serious run hits Japanese banks, they must sell Treasury bills, he warned—collapsing the U.S. financial system.

Checking even official numbers shows the New York banker is not far off. Japanese banks and government agencies have bought \$60-65 billion in U.S. Treasury debt during 1995 so far alone, Treasury figures show, and are expected to purchase over \$80 billion during 1995 as a whole. The growth in annual purchases recently has been logarithmic (see Figure 7). Despite the collapse of the Japanese "bubble" in 1991, the continuing crash of the dollar has led Japanese private and government agencies to try to bolster the dollar by purchasing U.S. Treasury assets, to the tune of \$20 billion in 1992, \$50 billion in 1993, \$60 billion in 1994, and \$80 billion this year.

"Fundamentally," as LaRouche put it Nov. 8, "the entire international monetary and financial system is in the process of disintegration. The only thing that could stop this would be for the U.S. to put the Federal Reserve System into financial receivership, that is, into bankruptcy reorganization. . . .

"In point of fact, the entire world monetary system and its financial appendages today, collectively, are bankrupt. That is, the ratios between total financial aggregates outstanding to monetary throughput, and monetary throughput to the physical income-producing base, are way out of line. . . .

"The problem is, that the U.S. government would be unwilling to act right now, for political reasons. The general view would be in Washington, that they have to *wait* until things get so obviously bad, that the general public are screaming for action. Until something like that happens, you get a tendency of tap-dancing around the issue of bankruptcy.

"Now recently, the United States has cooperated with Japan, in arranging for Japan to tap-dance around the problem. . . . And Japan, of course, is not in shape to undertake this on its own. What you're seeing, is the attempt to *manage* the crisis, rather than solve it. . . . Ultimately, it is unmanageable."