was yesterday." Now, this becomes a problem, because then people begin to act and say, "Well, your currency's worth less, we want more money from you to pay your old debts, because your currency's just been downgraded." This gets to the point of a crisis, as it did in the case of Korea, where the collection of short-term obligations denominated in non-Korean currencies suddenly going up in price, meant an amount that Korea could not pay.

Now, nothing had happened. The won, the Korean currency, on the day when such a crisis occurred, still had as much purchasing power, in terms of Korea-produced goods, as it had had before this crisis started. *The problem was, that the foreigners perceived, agreed to perceive, that the won was worth less in international exchange than it had been*. And, the basis for this, was, simply, the presumption of the bets across the table in a gambling house, a Las Vegas-type gambling house called international financial markets.

Now, in these international financial markets, hedge funds, such as George Soros's, his own operations, were dominant. And, Europeans, and others, particularly those who were against the United States, or U.S. traders who joined with Europeans in this kind of thing, had joined against the countries of Southeast Asia, which had been dollar-pegged currency bloc countries, against Taiwan, attempts against Hong Kong, against Japan, and against Korea, with China, and Russia, and Brazil, and Argentina targets for the near future down the way.

In comes the IMF, and says, "What you must do, is, you must wreck your economy, in order to influence these financial markets." Now, what are the financial markets? They're nothing but bloodsuckers, parasites, gamblers, what the Nobel Prize-winner Maurice Allais referred to as a "casino economy," the *casino mondiale*. So, as long as we continue to say that these irregular financial markets by gamblers, will determine the value of a national currency, not what the currency's value is, in terms of the goods you can purchase from it, that is, the goods it produces—as long as we allow that to go on, you're going to have this insanity going on.

Now, what's happened, is—under pressure of the IMF, and Japan, and others, the Hashimoto government—the government in Korea has gone for short-term conditions, and has welcomed George Soros, *who is the very disease that killed the Korean economy*. This problem is going to continue, until governments recognize that the Roosevelt administration was right, the Franklin Roosevelt administration, in the Bretton Woods agreement.

In the postwar period, we had a reconstruction based on limited convertibility of currencies, on foreign exchange regulation, on pegged values of relative values of currency in international markets, and, if anybody tried to come in and speculate the way George Soros does against currencies, we'd bankrupt the creature, eh? And, we have to go back to that. *Until we do that, we're not going to bring this problem under control*.

So, this is the reason why the IMF is considered a disease, because the IMF comes in and says, "A disease has attacked your economy. You must now pray, and pay off the disease! You must embrace the disease, and destroy your economy to please the disease. And we will measure your performance by this." The worst thing you can do, if you're a country and you're in trouble: If you accept IMF conditionalities, you're either on the floor with a knife at your throat, or you're clinically insane.

And, that's what the situation of Korea is now. They will not recover from this, until we introduce regulated currency values, introduce foreign exchange controls and capital movement controls, for the purpose of bankrupting what George Soros typifies. And, until we do that, this world is, in the short-term, is doomed to the greatest financial collapse in about 600 years, in terms of 600 years of European civilization's experience. And, it's coming on fast. We won't get to the year 2000 without the worst financial collapse in history, unless we stop this lunacy, unless we stop these crazy monetarists, like those lined up behind Newt Gingrich, from continuing to dictate our policies, until we go back to recognizing that government is a good idea.

The choices facing Japan's Hashimoto

by William Engdahl

On Jan. 12, Japan's Prime Minister Ryutaro Hashimoto is scheduled to finally unveil the details of his government's nervously awaited "bank rescue plan." The announced intention of this plan to to stop the threatened collapse of the Japan financial system, a system still buckling under the weight of the 1980s "bubble economy."

To date, few details have been made public about the specific working of the new supposed plan. However, from what has been said publicly by official sources so far, the actual result will be the worst disaster Japan has experienced since the May 1997 free fall of Thailand's baht.

According to a Jan. 5 report in the Japanese daily *Yomiuri Shimbun,* the final proposal of the special committee of the ruling Liberal Democratic Party, to be submitted to the Diet (parliament) for debate and approval, would include a new provision allowing the government to buy up to 13 trillion yen

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of new "preferential shares" in designated Japanese banks, in order to inject capital and hopefully to stimulate Japan's depressed economy.

By their account, the government will propose a total of 30 trillion yen ($225 billion) to be made available to the Deposit Insurance Corporation (DIC). Of this, 17 trillion yen reportedly would be available to guarantee deposits at failed or troubled banks, this to allay depositor panic which, in the past several years, has seen deposits leave commercial banks for the relative security of the government's Postal Savings Bank, KAMPO, making it the largest bank in the world, with over $1 trillion in assets. The rest of the banks are choking on what is estimated at anywhere between $800 billion and $1.2 trillion in bad loans to construction and other projects, which collapsed in late 1990, along with the crash of the Nikkei stock market.

If the final plan is at all similar to the first version, announced Dec. 10, at 10 trillion yen, the government would give a special guarantee to the DIC, allowing it to draw on up to 30 trillion yen in existing state bonds held by the government. These bonds could then be sold on the market to raise cash to help troubled banks. None of it would be available to insurance firms or stock brokerages, like the recently failed Yamaichi Securities, according to a senior Ministry of Finance official. Only banks will be eligible.

Reportedly some 13 trillion yen ($98 billion) of the total could be used for the DIC to buy new "preferred shares" of designated banks. The idea would be to allow new capital to come to the banks, so they need not sell their permanent stock holdings in other companies, the source of bank "hidden assets" in the postwar period. One reason for the severe fall in the Nikkei Dow stock index since last September, has been the forced selling by various banks of such stocks, to raise cash. The rules of the Bank for International Settlements (BIS) mandate that banks must hold an 8% minimum reserve "core capital," in relation to total loans outstanding, in order to do business internationally.

The banks now are in a "Devil's Circle," in which their individual stock sales have helped drive the Nikkei down, which in turn wipes out their hidden reserves, which in turn forces them to sell more shares. With the Japanese bank exposure to potentially devastating losses across Asia, combined with the earlier bad debt from the collapse of Japan's bubble seven years ago, the likelihood is that there will be a domino collapse of the entire Japanese banking system, in a matter of weeks at most.

Hoover, or FDR?

Reports circulating in Tokyo are that the latest version of the bank emergency plan is modelled on the successful 1930s American bank rescue plan, under which the government set up the Reconstruction Finance Corporation (RFC), after President Roosevelt's March 1933 national "bank holiday," to sort out healthy or nearly healthy banks, and abate a full-scale depositor panic. This attempted comparison to the Franklin Roosevelt-era RFC has no basis in reality; there is no rational comparison possible, between the merely cyclical financial-monetary crisis of 1929-31 and the present, global, systemic crisis.

The RFC operation, in which the government won new legal powers to audit all the nation's 14,000 banks, force management changes when deemed necessary, close dead banks, and revive salvageable ones, was a remarkable success. Rather than being a net taxpayer drain, the RFC ended up 15 years later with a net profit of $206 million, a huge sum in that day. As well, the economic recovery generated enormous tax revenue to the government. Of 6,000 banks which received government help, only 206 later were forced to close. Most were salvaged. The government injected capital into banks largely by asking the banks to issue new preferential shares, which only the RFC could buy. The RFC held the shares and earned dividend income until well after the crisis had passed, when it sold them back to the banks.

Yukiko Ohara, a Tokyo bank analyst for UBS, the large Swiss bank, asserts, falsely, that "in the 1930s, U.S. banks were confronted by much more difficult conditions than those that face Japan banks." Exactly the reverse is true.

Clearly the Hashimoto government, despite months of internal factional wrangling over whether or how to deal with the bank crisis, has finally become alarmed. On Jan. 7, Deputy Finance Minister Eisuke Sakakibara, Economic Planning Minister Koji Omi, and Deputy Cabinet Secretary Fukushiro Nukaga arrived in Washington for talks with the U.S. Treasury and Federal Reserve. As of this writing, no details are evident of any joint intervention to stabilize the falling yen—a major danger to Japan in recent weeks, as funds leave the country in growing sums.

"The issue for Japan at this point is whether they have the political will to act decisively," said K.A. Olsen, a European banker familiar with the situation. Nonetheless, Olsen committed the same fatal blunder of misjudgment which misleads UBS's Ohara, when he stated, "Only if they really decide to come to grips with the problemm will this be able to work like the U.S. bank rescue of the RFC. If not, I am extremely pessimistic." "The question," Olsen continued, "is whether Hashimoto wants to be Japan's Herbert Hoover, with always just too little needed to stop the crisis, or to be a new FDR." Olsen should study history more carefully. If Hashimoto continues his present plan, he will not have to choose between being a Hoover or FDR; he will assuredly become Japan's 1998 echo of the doomed 1921 Chancellor of Weimar Germany, Karl Joseph Wirth, the author of that infamous 1921-23 hyperinflation which began Adolf Hitler's rise to power with the November 1923 "Beer Hall Putsch."