Other, somewhat rational voices

The majority of the international financial oligarchy currently stands firmly behind Hashimoto's program of pumping liquidity and bailouts with public money. It is also becoming apparent, however, that some in the European and American financial and political elites are coming to understand that ever more comprehensive bailout packages are an untenable policy. The continuous injections of fresh liquidity into the financial system, supposedly in order to gain time, necessarily lead to galloping inflation. This faction emphasizes that one should not "socialize" the *private risk* of private financial institutions, and that *private* losses have to remain a central feature of a market economy.

In the opening days of the new year, several central bankers in Europe raised public accusations against the IMF's policy of ever more and ever grander bailout packages. The head of the German Bundesbank, Hans Tietmeyer, was cited in the Frankfurt financial publication, *Börsenzeitung,* at the turn of the year: "In my opinion, the IMF policy ought to be fundamentally reviewed," and he said he wanted to counter the impression that international organizations, such as the IMF, or other countries would always be standing by with big credits wherever a financial crisis breaks out. U.S. Treasury Secretary Robert Rubin expressed the point more sharply on Dec. 24, when he said that he would not make "a single nickel" available for private banks to compensate private creditors of South Korea for their losses incurred there. After all, the IMF money for bailout packages come from public funds that national governments are supposed to provide the IMF.

In a background discussion, a spokesman for the Bundesbank said that Tietmeyer's statements were intended to "deliver the message" that, while the IMF was not being "put into question," it was moving into "dangerous terrain" by continuously packaging new bailouts. It had to be emphasized, said the spokesman, that "private creditors" had taken a "private risk," and they could not count on being saved with public money. There is "complete agreement" between Rubin and Tietmeyer in this regard. On Jan. 7, in a commentary for the Copenhagen daily *Politiken,* the former governor of the Danish National Bank, Erik Hoffmeyer, criticized the conditionalities of the IMF for the $57 billion bailout for South Korea because of the "immense" negative economic and political consequences. Hoffmeyer then asked: "There is a very great risk that the money which flows to South Korea will only be used to pay the loans of the most nervous [private] creditors [from Japan, Europe, or the United States]. Now, does that make sense?" But these views of Rubin's or Tietmeyer's, also now shared in the Swiss National Bank, do not currently determine policy. These views are also miles away from LaRouche's proposals for a "radical reform" of the world financial system.

For the moment, the agony of the world financial system will probably continue, but the worldwide and systemic nature of the crisis is becoming more obvious as each day passes. It can be assumed that there will be an extraordinary combination of three trends in the first quarter of 1998: 1) a continuation of the inflationary policy of liquidity-pumping and public bailouts; 2) a drop in stock values of up to 40% on the European and U.S. financial markets; 3) the shrinking financial values will go hand in hand with a shrinkage of the real economy in the U.S.A. and Europe. These three factors make an explosive mixture, and not only in monetary-financial respects, but also in social respects, and especially in political-strategic respects.

Blair makes an offer Japan must refuse

by Our Special Correspondent

British Prime Minister Tony Blair could not have chosen a more opportune moment for his official visit to Japan on Jan. 9-13. The wild gyrations of the Tokyo currency and stock markets, the overall weakened Japanese financial situation, and the unwillingness of Japan to break from longstanding plans to deregulate its markets, left Japan particularly susceptible to Blair's pitch for a new Anglo-Japanese alliance, based on a series of financial and economic deals between Japan and Europe.

In Tokyo, Blair held a series of meetings with Prime Minister Ryutaro Hashimoto, Finance Minister Hiroshi Mitsuzuka, and Emperor Akihito, and appeared almost daily on Japanese national television. As one Japanese observer told *EIR,* "It was Blair-mania" all over Japan.

Concretely, what Blair's trip was aimed at achieving was a full integration of Japan into Britain's global financial orbit. The day before Blair left for the Far East, he had met, in London, with 20 members of the European Commission. He told them that he would secure a commitment from Japan for full cooperation with the European Monetary Union (EMU). Given that Britain has already announced that it will not be among the first countries adopting the single currency, the euro, in January 1999, Blair's Japan gambit was aimed at giving Britain greater leverage on the euro arrangements than it would otherwise have.

In Tokyo, Blair pushed hard for Japan to move forward with the scheduled April 1998 "Big Bang" opening of its financial services sector—despite the fact that the Japanese Ministry of Finance had just released data showing that Japanese banks are carrying over $575 billion in bad loans—more than double the previously acknowledged figure.

This deregulation push would open Japan's $7 trillion in personal savings, for investment into the global markets—i.e., for unchecked looting. Those savings deposits, and the fact that Japan still has a large, high-tech industrial base, are the country's chief defenses against the looming assault by currrency speculators linked to the British monarchy's Club of the Isles. Under the current crisis conditions, for Japan to go ahead with the "Big Bang" would be suicidal. London, on the other hand, is anxious to get a big piece of this money to offset some of the big losses recently suffered by British financial institutions in the Asia turmoil.

The view from Tokyo

If Japan foolishly proceeds with the radical restructuring plan and moves into a cooperative relationship with Britain, particularly the London-headquartered Club of the Isles, Japan will be finished—economically and politically.

So, why are the Japanese so short-sighted? The answer, according to one U.S. intelligence source, is that the Japanese believe they need access to Britain's and Europe's markets before the EMU goes into effect, in order to compensate for anticipated losses of Asian export earnings, due to the currency collapses that have rocked such traditional Japanese export markets as Thailand, South Korea, and Indonesia. Japan is trying to become involved in joint ventures now, and to export to Europe—before the other Asian countries with devalued currencies can corner the market.

Unfortunately, the Hashimoto goverment seems to be accepting the British offer without fully grasping the consequences of its actions. The Japanese have themselves been the target of a massive speculative attack on their currency and markets, over the last several months, and until the week of Jan. 12, the Tokyo Stock Exchange and the yen were both sliding rapidly. Some policymakers in Tokyo reportedly believe that if they continue to support the International Monetary Fund's (IMF) conditionalities and cut a deal with the British, then they can go ahead with the so-called deregulation and survive.

What this short-sightedness leads Japan to ignore, is who was responsible for triggering the Asian currency devaluation in the first place. The global offshore hedge funds and British and European banks launched the Spring 1997 attacks on the Asian currencies, with the aim of weakening Japan to the point where Japan is no longer the dominant economic force in Asia. Moreover, as Japan continues to drift in a morass of internal factional warfare, the British and their allies see the opportunity of turning Japan into just another Asian country, vulnerable to what is being described in some British circles as the "recolonization of Asia."

The ongoing Japanese internal poltitical faction fighting is yet another complicating factor. Despite the announcement of the Hashimoto emergency economic plan, which goes before the Diet (Parliament) later this month, there is not yet any consensus on how Japan will deal with the "Asia contagion." The political and financial institutions are openly split on the issue of using public funds for any bailout of failed banking institutions. Hashimoto's public insistence that no bank will fail is fueling a massive behind-the-scenes battle among the various forces. The so-called "domestic stimulus package," if it involves a simultaneous bank bailout, could lead to an inflationary spiral.

One hopeful sign that some forces in Japan are willing to look at reality, comes from the office of Finance Minister Hiroshi Mitsuzuka. During the week of Jan. 5, Mitsuzuka announced two regulatory actions to stem the speculative activity of foreign financial institutions. Both came following the visit to Washington by Vice Minister for International Affairs at the Finance Ministry Eisuke Sakakibara, and Economic Planning Agency chief Omi. During the trip, the United States and Japan worked out plans to crack down on "short-selling" on bank stocks, and rumor-based price manipulation—two favorite weapons of the hedge funds that have been wrecking havoc on many Asian currency markets.

Additionally, leading Ministry of Finance officials have recently called for a slowdown of the reforms until the banking crisis is under control. This move provoked a series of hysterical attacks in the international financial press. It should be recalled that a few months back, U.S. Treasury Secretary Robert Rubin urged Japan not to proceed with the drastic deregulation measures, and, instead, urged Japan to concentrate on straightening out its domestic capital markets.

Blair spent much of his visit to Tokyo, attempting to break that emerging resistance to the further liberalization. At a press conference in Tokyo, where he was joined by European Union President Jacques Santer and European Union Vice President Sir Leon Brittan, Blair railed: "Though they [regulatory reforms] may be difficult in the short term, they do yield greater benefits, and the greater the credibility, the greater the transparency, the greater the accountability, then the better off in the long term the financial system is. It allows investors to have the confidence that the system is being run properly, it is being done in an open and transparent way, that they can see what the true situation is."

Japan's relation to the United States

Another source of Japanese vulnerability to the Blair gameplan is the fact that the Japanese press has, for months, been blaming the United States—not Great Britain, the Netherlands, France, etc.—for the activities of George Soros and the other currency speculators who have pirated Asia. This vulnerability to anti-American propaganda is a big source of Japan's problems today.

Japan, like every other nation on this planet, is doomed, if the present floating exchange rate system remains intact much longer. Japan's survival lies in its adopting Lyndon LaRouche's call for a New Bretton Woods System, based on fixed currency exchange rates. Right now, this means working with a fragile, but well-meaning U.S. administration, and giving no licence to Blair and the British Club of the Isles to establish an even stronger beachhead in Tokyo.

"If the Japanese go with the full British plan," one senior U.S. official noted, "the U.S. would have to reassess its strategic relationship with Japan."