

mestic and Asian problems of Japan's banks has been to increase fears of international lender banks to lend to Japanese banks. In the past three weeks, the dreaded "Japan risk premium" has returned.

Today, in order for Japanese banks to borrow in the interbank market, they must pay between 0.85% and 1% above the London Inter Bank Offered Rate (LIBOR). This penalty, as the April 1 deadline nears, is expected to rise even more steeply, posing yet a new threat to the global credit mechanism. Indeed, the Davos façade of optimism, like the emperor's new suit of clothes in Hans-Christian Andersen's famous tale, is illusion. The bubble is about to burst on that illusion.

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## Documentation

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### Rubin: 'New architecture' needed for financial system

*Here are excerpts of comments by Treasury Secretary Robert Rubin and Rep. John LaFalce (D-N.Y.), at a House Banking Committee hearing on Jan. 30. Emphasis is ours.*

**Secretary Rubin:** The United States has critical economic and national security interests at stake in promoting restoration of financial stability in Asia. . . . The countries in Asia are our customers, our competitors, and our security partners. Financial instability, economic distress, and depreciating currencies all have direct effects on the pace of our exports to the region, the competitiveness of our goods, our agricultural products, and our services at home and abroad, the growth of our economy and, ultimately, the well-being of American workers and farmers. . . .

Financial assistance, while critical for a short period, is not the key. Only when nations pursue sound policies will confidence—and private capital—return. The central provider of this financial assistance is the International Monetary Fund . . . the right institution to be at the center of these support programs. The United States has worked forcefully to help the IMF meet the new challenges of the modern financial system. . . . This funding is absolutely necessary to enable the IMF to respond effectively if this financial instability were to spread and intensify—which we all want to avoid—and to deal with future crises that could similarly affect the interests of the American people. Moreover, failure to provide funding could reduce our leverage in the IMF, and could shake confidence in American leadership in the global economy at a time when confidence and American leadership are so important in reestablishing stability in Asia.

As to investors and lenders, the problem is more compli-

cated. *The right principle is that investors and creditors should bear the full consequences of their decisions. I would not spend one nickel for the purpose of protecting investors or banks. . . .*

It is critically important that we work toward changing the global financial architecture so that creditors and investors can bear the consequences of their decisions as fully as possible. But devising such architectural changes is difficult and complex. We cannot wait until that work is complete to take the steps necessary to deal with the crisis at hand that so powerfully affects our interests, or to provide funding that will equip the IMF to deal with a substantial spread of the present financial instability—which we are all working to prevent—a future crisis.

**Rep. John LaFalce (D-N.Y.),** expressed "concerns that the IMF not impose severe austerity programs that can do untold harm to Asian citizens and potentially to our own. . . . The IMF may not be a perfect tool, but right now it's the only tool we have. . . . The United States can only use its voice and vote to reform the IMF if we do not walk away from it in the midst of a crisis. . . . Ultimately, I agree with Secretary Rubin, and others, that we need a new architecture for the international financial system to manage, and more importantly, help avert crises like this in the future. But before we perform this surgery, we must stop the bleeding."

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- that the Founding Fathers promoted partnership between private industry and central government?

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