
Japan

Wall Street Plays With Fire In Bank Blowout

by Kathy Wolfe

Japanese Prime Minister Junichiro Koizumi's economics czar Heizo Takenaka hurried to Washington on Jan. 7-8, trying to calm officials alarmed at recent protestations by Koizumi and his cabinet, that they "won't allow" a run on Japan's major banks (see *EIR*, Jan. 11, 2002). Takenaka, Minister of State for Economic and Fiscal Policy, briefed Treasury Secretary Paul O'Neill, White House Council of Economic Advisers Chairman Glenn Hubbard, Presidential economics adviser Larry Lindsey, U.S. Trade Representative Robert Zoellick, and Deputy Secretary of State Richard Armitage. He emerged to announce that the United States was behind Koizumi all the way, and would even support a bailout of Japan's banks using public funds for capital injections.

However, down the block from the White House, at the American Enterprise Institute (AEI), a self-styled chief think-tank for the Republican Party, a policy paper issued only days earlier appears to be an attempt to blow the Tokyo powder keg sky high. Japan has chosen "the road to default," and will soon see 1929-style runs on all major banks, a \$1 trillion bailout which will fail, a fire-sale of \$4 trillion in Japanese government bonds, and a collapse of the yen, writes John Makin in the January issue of AEI's *Economic Outlook*. "Japan's deflation and debt crisis now constitute systemic risk to the global economy," he states.

Much of the mess in Japan has been caused by Washington's demand that Tokyo act as the "firewall" for the dollar, by printing enormous amounts of yen to support the U.S. currency, as 2004 U.S. Presidential pre-candidate Lyndon LaRouche explains in "AEI's Makin Misses The Point" (see *Editorial*). Since Japan's financial system is the only barrier to a dollar crash, and since the collapse of major Japanese banks would presumably bring down half the banks in America, what kind of Washington think-tank would shout fire in such a theater? While this story is still developing, *EIR* cannot rule out that moves are afoot for some sort of global financial "end-game." Top AEI officials include Samuel Huntington, Richard Perle, Michael Ledeen, Michael Novak, Enron Chairman Kenneth Lay, and other promoters of the "Clash of Civilizations" thesis at the root of the Sept. 11 attempted coup d'état in the United States.

This much is clear: As Bank of Japan (BOJ) Governor Masaru Hayami warned on Jan. 1, Japan is on the edge "of a deflationary spiral"—Tokyo-speak for a 1929-style crash—

and a grouping on Wall Street and in Washington appears to be pushing it.

Engineering A Crisis

The Japanese operations of Wall Street investment firm Goldman Sachs were suspended by the Japanese government's Financial Services Agency on Dec. 21, a Ministry of Finance source told *EIR* on Jan. 8, for "selling short" Japanese bank stocks—placing speculative bets that the stocks of major banks will soon collapse. So many Wall Street firms have placed such bets, that they are crashing the bank stock market, the official said. "Japanese bank stocks were down almost 40% in value last year. Almost half the drop was in December, when the U.S. hedge funds began short sales. This is targeting, just as [mega-speculator George] Soros was targeting the Thai baht in 1997," the source said. "This is why the Japanese government closed down the operations of Goldman Sachs in Tokyo. Goldman Sachs has been selling Japanese bank stocks short in a very nasty way, in violation of Japanese law. This is a warning to all the U.S. hedge funds to stop this irresponsible speculation."

Enron, Citibank, and related Wall Street outfits, on top of this, caused another enormous crisis in December, former Bank of Japan Executive Director Akira Nambara told *EIR* in a Jan. 9 interview (see below). Enron and Citibank, through its Tokyo partner Nikko Securities, had pushed large amounts of poorly audited, worthless paper in Japan, "issuing these huge amounts of debentures based on nothing," Nambara said. "They have swindled many investors in Japan. Japanese money market funds trusted the Arthur Andersen accounting firm, but they deceived the private investors. . . . S&P, Moody's, they stood by and never warned Japanese investors."

Tokyo money market funds, which held most of the Enron and Argentina paper in Japan, have already reportedly fallen \$25-35 billion during November-December. According to Nambara, however, the situation was so dangerous that the Bank of Japan had to conduct direct open market operations, purchasing large amounts of commercial paper from the money market funds and their banks to avoid a deflationary crash.

Such manipulations by the "Washington Consensus"—i.e., International Monetary Fund (IMF) policies—have occurred just as LaRouche warned, Nambara said. LaRouche's call for urgent financial crisis measures, along with these warnings, have been circulating in the Bank of Japan and the Prime Minister's office, and the message is starting to get through.

In fact, Nambara warned, there are those in the Bank of Japan who think the results of Washington and IMF policies forced on Japan are so bad, that they should just let it blow up. "They believe that there can be no more half-way measures, that all they can do now, is to demonstrate the failure of today's entire system. . . . They say: 'Fine, we will do as you demand and continue your insane policy—and let it all

blow up!’ They now believe that only if there is a complete crash to the bottom, a crisis as bad as the end of World War II or the crisis which led to the Meiji Restoration, could we possibly wake up the politicians and the population.”

AEI’s Trillion-Dollar Blowout

“Is Argentina’s Present, Japan’s Future?” the Jan. 5 *Japan Times* asked in an editorial, a report which was worrisome enough, considering that a Japan default would be orders of magnitude larger than that in Argentina. But the AEI paper calling for a total default in Japan is no mere “generalized allusion to Argentina,” the Ministry of Finance source said. “This AEI report is a detailed, step-by-step scenario, from some very powerful people in Washington. This has been circulating for the last ten days. This was one of two reasons Prime Minister Koizumi called the emergency meeting on Dec. 27.”

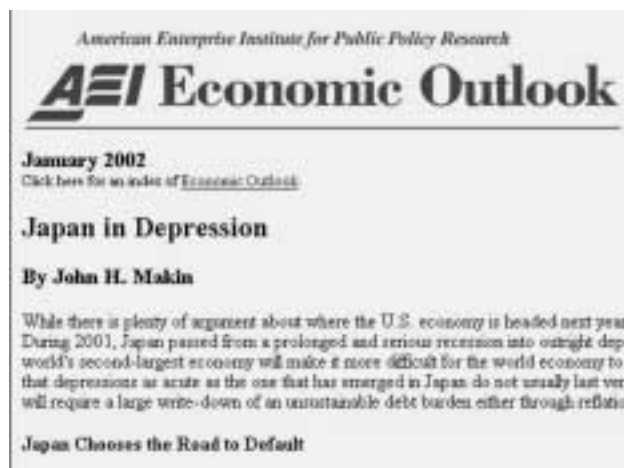
The Bank of Japan has failed to reflate Japan’s economy because it has been “kicking a dead horse,” Makin writes. “The dead horse is the Japanese banking system, which by virtue of its insolvency, is unable to act as a financial intermediary, borrowing from the central bank and lending to Japan’s private sector.” By pumping money into the banks, the BOJ has been doing nothing. “Rather, Japan’s banks are borrowing from the central bank at zero interest rates and buying government securities.”

Soon, “depositors, convinced that the liabilities of Japan’s banks far exceed their assets, will continue to withdraw funds from the Japanese banking system. There will be a full-scale ‘run’ on the banks. Concern over this outcome is already evident in Japan’s stock market, where bank stocks were down 44% on the year, against an overall stock market decline of 24%.”

Once the bank run starts, Japan will have to print so many government bonds to bail them out, that there will next be a run on government bonds, Makin continues. “The negative net worth of the Japanese banking system is somewhere above the yen equivalent of \$1 trillion. When the banking system collapses . . . the Bank of Japan will need to inject at least \$1 trillion into the banks to protect depositors.” This will require “a huge increase in government debt that is immediately monetized by the Bank of Japan. In order to acquire the funds to protect Japan’s bank depositors, the government will issue \$1 trillion worth of securities. . . . Such steps will probably result in nationalization of Japan’s banking system. . . .

“Japan’s public debt will jump immediately by about 15%. The resulting surge in liquidity, coupled with a huge increase in government debt with the prospect of still further increases, will cause Japan’s currency and bonds to collapse.” Japanese markets are already selling all kinds of insurance against just these possibilities, he adds. The current weakness in the yen is no mere 20¢ move to help exports, but rather “signals a prospective run out of Japan’s last safe havens for Japanese investors—government bonds and cash.”

“Whoever is doing this should realize that people who



The American Enterprise Institute misses the point, by hyping up an oncoming “Japanese crash,” when Japan is in fact being hit by global financial storms. Unlike AEI, the Bush Administration is not seeking a deflationary collapse in Japan.

live in glass houses shouldn’t throw stones,” the Ministry of Finance source concluded about the AEI document, noting LaRouche’s point that the dollar and the U.S. system are in the same boat as Japan. “That is what BOJ Governor Hayami was referencing in his New Year’s interview, when he brought up the fact that the U.S. economy is vulnerable, too.”

Koizumi And Thatcher

Minister Takenaka, in two long talks in Washington on Jan. 7-8, meanwhile, made obvious another severe problem inside the Japanese government itself, the disease of Thatcherism, which is the last thing Japan needs at a time of deflation, as Nambara points out. In his Jan. 7 lecture at the Washington National Economists Club, Takenaka said that his program is modelled after the “Conservative Revolutions” of former British Prime Minister Margaret Thatcher and former U.S. President Ronald Reagan. He constantly speaks of the “supply-side” economics of the Reagan era, better known as “voodoo economics.” Takenaka in particular has made a sacred cow out of the IMF phrase “structural reform,” first used by Thatcher to shut down entire chunks of Britain’s industry. The IMF then used the term as part of its “shock therapy” in Russia, to mean “shut down all the old industries, and hope somebody builds new ones”—which no one ever did.

The Harvard-trained Takenaka, who controls most of Hollywood figurehead Koizumi’s economic policy, has, at least until recently, sold the gullible Japanese voters on “structural reform” as the only way to cure all of Japan’s ills. Much as Eastern Europeans were sold on the “magic” of the IMF “free market” at the fall of communism, Japanese are told: Structural reform will be completely different from the traditional Japanese model, so it must be better.

As Takenaka has implemented the IMF policy, this has meant forcing the banks to shut down dozens of firms, to

deliberately throw people out of work, as the IMF has explicitly demanded. Japan has lost more than 1 million jobs in the last 12 months, and another 2 million jobs are slated to be lost by Summer, along with the closings of hundreds of workplaces. The more the layoffs rise, the worse the deflation gets, as consumers, fearing for their jobs, refuse to spend a thing, and companies refuse to invest. Yet, Takenaka and the IMF single-mindedly insist on their mantra of more structural reform.

“Structural reform” in Takenaka’s lexicon also means cutting the budget, or at least keeping it tight, while all this is going on—a sort of Japanese kamikaze version of former House Speaker Newt Gingrich’s (R-Ga.) infamous 1996 shut-down of the U.S. government under the banner of “Conservative Revolution” budget cutting. The Washington Consensus hand in all this, showed itself during Takenaka’s trip to the White House, when he was asked if he would relent and remove Koizumi’s current cap on this year’s budget, given the dire economic deflation. “Nonsense!” one of the Bush Administration officials reportedly proclaimed, according to Japanese press accounts, and Takenaka agreed.

Interview: Akira Nambara

‘Washington Consensus’ Should Watch Its Step

Mr. Akira Nambara served at the Bank of Japan (BOJ) from 1958, and was Executive Director from 1990-1994, then Deputy Governor of the Japan Export-Import Bank from 1994-98. He was interviewed for EIR from Tokyo on Jan. 9 by Kathy Wolfe.



EIR: You told *EIR* last March that Finance Minister Kiichi Miyazawa was right to warn about Japan’s finances, and you warned that the Japanese political class must wake up, and get a sense of crisis (*EIR*, Mar. 23, 2001). Does Prime Minister Junichiro Koizumi’s emergency meeting Dec. 27 indicate that Japan’s leaders are finally waking up?

Nambara: It was good that Mr. Koizumi held the meeting; he needed to understand that this is a real crisis. The problem

was that his popularity is fantastically high, so Mr. Koizumi believed his program was on the right track. But it’s not, at all. Mr. Koizumi has always said that his plan for structural reform will cause pain, but he promised to cause the pain to the vested interests of pork-barrel politics, the “Iron Triangle” of politicians, bureaucrats, and interest groups. Unfortunately, however, Mr. Koizumi turned out to be a “NATO” man: “No Action, Talking Only.” And due to his “No Action,” he has given the pain instead to the entire Japanese economy as a whole.

He got away with it, until now, because most Japanese people have been enjoying “the Golden Recession.” They enjoy the world’s largest holdings of financial assets per capita, mostly owned by the elderly and business executives. Due to falling consumer prices, they enjoy increased real income and their children enjoy a parasite’s life. They do not have any sense of crisis, but the other side of this coin, is that those who borrowed from them, mostly through government lending institutions, are seeing their assets eroded day by day. So the population’s real assets, in a sense, are disappearing.

EIR: We heard that warnings from the BOJ that one of the Top Four Japanese bank groups is in severe danger, helped to trigger the emergency meetings in Tokyo—along with some very dangerous actions by U.S. hedge funds, banks, and think-tanks pushing to “sell Japan.”

Nambara: As I have been warning for over a year, Japan is in the midst of the most serious and dangerous deflation in the industrial economy in our history. Despite all the cash the BOJ is printing, the banks can’t use it, and most Japanese banks have now almost lost their function as financial intermediaries. They have simply stopped lending to many companies in the economy. This means that companies which could be the next Sony or Matsushita, are not being created, while increased corporate bankruptcies are eroding the banks’ assets.

I am now relieved that BOJ finally has made the correct diagnosis that the nation is endangered by a deflationary spiral like the 1930s.

EIR: Some BOJ officials say that the whole system is completely non-functional.

Nambara: Yes, in fact some of them are just too pessimistic. They believe that there can be no more half-way measures; that all they can do now, is to demonstrate the failure of today’s entire system. The BOJ has been pushed to expand the monetary base despite the fact that the banks cannot use the money, but the Washington Consensus and the Tokyo economists just demand that the BOJ print more money, without any thought of the result. Thus, many people at the Bank of Japan have given up, and they say: “Fine, we will do as you demand and continue your insane policy—and let it all blow up!” They now believe that only if there is a complete crash to the bottom, a crisis as bad as the end of World War II or