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 shutdown 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 the crisis which led to the Meiji Restoration, could we possibly wake up the politicians and the population.

I don't agree with this extreme view, but it does show the total failure of the current policy. So, of course, we won't do this.

EIR: What about the American Enterprise Institute report that Japan's entire system is about to crash?

Nambara: I agree with some others you have interviewed, that while Japan is in big trouble, we don't need to pile on top of it, certain nasty manipulations to cause the markets to "sell Japan." I read the AEI report already some days ago. It's part of a pattern of things from the Washington Consensus.

EIR: Do you mean the mass sales of Japan bank stocks by U.S. hedge funds?

Nambara: Yes, this is outrageous. Did you know that in 1998, the Long Term Credit Bank was bankrupted when S.G. Warburg did huge short-selling of its stocks? One of the most important banks in Japan. Now the major U.S. hedge funds are doing it again, selling the Japanese bank stocks short. Fortunately, now the BOJ and Ministry of Finance understand that we can't tolerate this; that is why they froze the Goldman Sachs operations in Tokyo. So that's good news. And this is also thanks to the constant warnings from *EIR*.

Also, Kenneth Courtis and Deutsche Bank: Mr. Courtis used to be at Deutsche Bank, where he lost his job because he incorrectly forecast the appreciation of the yen. Now he's with Goldman Sachs, where he has been calling for a yen collapse for months. Goldman Sachs, again. And now the Deutsche Bank in London has issued a forecast for the yen to fall to 205 per dollar. Even if it's in four years, this is still too much.

EIR: What about the secret International Monetary Fund missions to Japan all this year?

Nambara: The IMF and the Federal Reserve diagnoses on Japan are terrible. They demand the immediate sell-off of all NPLs [non-performing loans] right now, which would just bring down many industrial companies. That way, Wall Street can purchase Japanese assets a dime on the dollar, while Japanese investors will be crippled. You remember, in 1998 some Wall Street investors were able to buy a large regional project in Miyazaki-ken at about 10% of the true, original value. The IMF also wants a total devaluation of the yen, as was done to Association of Southeast Asian Nations countries in 1997, as the IMF is now demanding in Argentina. If the yen drops dramatically, it means everything would become cheaper in Japan for the foreign buyouts. We can't tolerate that. . . .

But they should watch out because, as BOJ Governor Masaru Hayami mentioned in his New Year's interview, from the standpoint of economic fundamentals—and as Mr. LaRouche says—the U.S. economic fundamentals are actually much worse than those of Japan. For example: Look at the behavior of Enron and Citibank and similar U.S. companies issuing these huge amounts of debentures based on nothing. They have swindled many investors in Japan. Japanese money market funds trusted the Arthur Andersen accounting firm, but they deceived the private investors in Japan. Citibank, which runs Nikko Securities, pushed Nikko to sell so many Enron debentures to Japanese investors. S&P, Moody's, they stood by and never warned Japanese investors of this, and we trusted them. Again, the "Washington Consensus": although the BOJ recognized the situation, and immediately purchased CPs [commercial paper] to avoid a deflationary spiral.

EIR: What about the rest of BOJ Governor Hayami's New Year's Day interview?

Nambara: He did a good job. He was correct to warn the situation is very serious, and as Mr. LaRouche mentioned, he understands the diagnosis, that simple money-printing by the BOJ is going nowhere, while the danger of a deflationary spiral increases rapidly. And he said, they would do everything they could to try to stop it. He clearly stated we shouldn't push the yen to be weaker, or it could become dangerous for Japan.

But as for the remedy, I'm afraid Mr. LaRouche is also right that Mr. Hayami does not have an effective remedy. One problem is both Prime Minister Koizumi and Mr. Hayami seem too committed to the idea that all the NPLs must be disposed of immediately. It could be similar to the pessimists' standpoint that nothing really can be done, except to let it all crash. Or it could also be similar, unfortunately, to the IMF standpoint. But to dissolve NPLs is not structural reform at all. The increased NPLs are the result of minus growth of Gross Domestic Product, in nominal terms, in the past four years. In every country, NPLs will increase when it becomes recession. The mere dissolution of NPLs at deflation time, will only exacerbate the deflation.

EIR: Mr. Koizumi's chief economic architect, Mr. Heizou Takenaka, unfortunately seems to have a similar, Margaret Thatcher-type of philosophy.

Nambara: I have always criticized Mr. Takenaka since he wrote the report of the Economic Strategic Conference in March 1999. . . . When Takenaka refers to "structural reform," his model is Margaret Thatcher, but Japan today is completely different from England 20 years ago. The lost competitive edge of British industry, and the Wilson government, brought inflation and stagnation. Here in Japan, stagnation, yes! But no inflation! On the contrary, we are in the midst of deflation. . . . In spite of the burst of the bubble, our economy had never recorded minus growth until mid-1997. It was the Hashimoto government and BOJ which brought deflation to Japan, like the United States early in 1930, because Mr. Hashimoto, and the previous main stream of the BOJ, never learned from history and accepted the "Washington Consensus."