War Threats Trigger Japan Financial Meltdown

by Kathy Wolfe

Japan's debt-loaded financial system, brought to the melting point by the past three years' sinking of the international free-trade economy into depression, is now burning up under the global threat of "imperial" U.S. wars in the Mideast and on the Korean Peninsula. Ironically, Japanese Prime Minister Junichiro Koizumi has met the crisis by loudly endorsing the American war strategy against Iraq. But Japanese banking authorities have "no options left" within the nation's financial system, to save it, as this year's March 31 end-of-fiscal-year crisis is turning into a bank and markets blowout. Their only hope is that a broader Eurasian move toward new dirigistic credit, trade, and infrastructure-project agreements may be emerging from the alliances of nations opposing the war. And Koizumi has opted not to join those alliances.

Under enormous Washington pressure, Koizumi began stumping for endorsements of a unilateral U.S. war on Iraq on March 10-11, phoning Mexican President Vicente Fox and every other head of state on the Security Council to support the Anglo-American UN resolution. In Tokyo, Koizumi called a meeting of all former prime ministers, including Yasuhiro Nakasone, and Kiichi Miyazawa, and was roasted. Miyazawa and former Liberal Democratic Party (LDP) President Yohei Kono "expressed caution in supporting the use of force to resolve the crisis," Kyodo News reported on March 11. Echoing LaRouche's warning that war with Iraq makes the North Korean situation insoluble, "Yoshiro Mori, also a former prime minister, pointed out that actions taken to deal with Iraq will have an impact on security issues concerning North Korea." Koizumi's ruling coalition partners, the New Komeito party and New Conservative Party, oppose the war.

Demands for a 'Wall of Money'

"The Japanese financial system is not on the brink of crisis as March 31 approaches, as is rumored in financial circles," Chief Cabinet Secretary Yasuo Fukuda announced. But Japan's Cabinet called an emergency meeting on the economy on March 11, as the Nikkei Average plunged below 7,900 for the first time in 20 years, ending at 7,862, the lowest since March 1983, due to the threat of war in Iraq, North Korea, and the world economic crisis. Asked what they will do, both Koizumi and Fukuda said it was too late for any budgetary or other government measures, and that the Bank of Japan (BOJ) will have to bail them out with a wall of money. "Monetary policy will have to take center stage," as Fukuda put it.

On March 31 banks and industrial companies close their books. Such historic low stock prices at that time can trigger a wave of bankruptcies and a crisis in financial institutions with large share holdings. Daiwa Research estimates that unrealized losses on industrial company shares held by major banks alone have doubled in six months, from 3 trillion to 6 trillion yen (almost $52 billion).

Top officials of the ruling LDP urged the government to temporarily suspend the "mark-to-market" accounting method on corporate securities holdings imposed by the Bank for International Settlements—since so many huge Japanese companies will have to declare massive losses in their stock holding of other Japanese companies on March 31, with the markets at this level.

Koizumi told reporters on March 11, "I hope the BOJ takes bold measures." BOJ Governor Masaru Hayami is scheduled to be replaced by long-term BOJ career diplomat Toshihiko Fukui on March 20, and neither of them is happy with the demands to print even more money.

Thirteen years after Japan's bubble first started to deflate, Nikkei stocks have arrived at one-fifth of their peak value. When on March 11, the Nikkei fell yet another 180 points to 7,862—its lowest close since January 1983—the big banks were at the center of the market panic. They lost 20-30% of their market value during February alone, and will have to present annual figures by March 31 under somewhat stricter rules than before. As the overall stock market meltdown has eroded their capital, some banks and insurance firms may not be able to fulfill capital requirements and stay in business.

On March 11, the Bank of Japan injected an extraordinary $8.6 billion into the money market, its first such extra operation since October last year. When it repeated a money injection of the same size again on March 12, it was only able to force the Nikkei index back up by a small amount. Even such a "wall of money" attempt is not functioning.

Investors are calling on the government to pump money directly into the stock markets—for example, by using public pension funds, a suicidal measure. The central bank as well is urged by both investors and the government to take extraordinary measures. Toyota Motor chairman Hiroshi Okuda, who also heads the Japan Business Federation, stated "We are in a crisis," and the central bank should buy exchange traded funds, that is, entire portfolios of stocks, in order to stop the stock market's plunge.

Koizumi had unconvincingly assured the press on March 10 that "we will avoid a financial system crisis under any circumstances"; and Financial Services Minister Heizo Takenaka on March 9 had called on the Bank of Japan to take "drastic measures" to inject more cash into the economy. But Takenaka's own "drastic measures" of the past year, his "surgery without anaesthesia" policies—forcing Japanese banks to write off corporate loans, and corporations to liquidate or sell off divisions—have made Japan's intractable debt crisis worse, and helped set up this March financial disaster.