

Japan's Kotegawa Warns of Imminent Financial Collapse

Oct. 14—The Russian weekly *Zavtra* of Oct. 10 published a Q&A with Japanese economist Daisuke Kotegawa on its front page. The question was, “What is your evaluation of the current global financial situation?” Kotegawa’s reply: “My experience and research indicate that a financial catastrophe, accompanied by a global collapse, could happen in the immediate weeks ahead, unless the leaders of the major economic powers adopt certain specific, tough measures. The crisis is linked with the situation in the United States, where political disputes have led to a freeze-up of the budget process and a rejection of attempts to raise the debt ceiling. Because of this, my view of the overall situation is extremely skeptical.”

Kotegawa is a former executive director for Japan at the IMF (2007-09), a former official of Japan’s Ministry of Finance, and current research director at the Canon Institute for Global Studies.

Zavtra has a print circulation of 100,000 copies and is read throughout the Russian political establishment.

In recent public presentations during a visit to Europe and the United States, Kotegawa elaborated on his assessment that an economic collapse could come at any moment. In addition to the government shutdown/debt ceiling fiasco in the United States, he warned that Greece is facing a third bailout, and the Spanish banks are holding vastly over-valued real estate portfolios and lack sufficient reserves to deal with a further crash of the housing and commercial property bubble. He

warned that the European Central Bank is facing a major crisis, and that the reckoning could come as soon as a new German Cabinet is formed. Because of the new crises on both sides of the Atlantic, the financial markets are panicked, he said. He warned that the investment banks must be dumped if there is to be any hope of avoiding a systemic crash.

Kotegawa is a firm advocate of U.S. restoration of the Glass-Steagall Act, a position that he presented at conferences of the Schiller Institute in Germany on Nov. 25, 2012 and April 14, 2013 (see [EIR](#), Jan. 11, 2013, and [EIR](#), April 26, 2013).

Speaking to [[students]] [[<http://www.hse.ru/en/news/guests/87464457.html>]] June 18, 2013 at the National Research University, Higher School of Economics, in Moscow, he explained the origins of the current crisis, the fact that Dodd-Frank will give bail-ins to the banks from depositors’ accounts, and the importance of Glass-Steagall.

“There is big movement going on in the U.S. Congress,” he said, adding that if Congress approves Glass-Steagall, the effect will be “incredible.”

The financial bubble started in 1999, when the United States abolished Glass-Steagall, he said. “This law was introduced after the big crisis in the 1930s, to separate investment banks and commercial banks. The difference between those banks: commercial banks get deposits and they mainly lend money to manufacturers; but investment banks, like Goldman Sachs, never col-

lect deposits. They raise money in the market by issuing bonds, very large ones, and they do not lend money to manufacturers; instead they bet, they gamble. And sometimes, as long as the gambling goes well, they make huge profits. But they also lose.

“After 1999, lots of investment banks merged with commercial banks. So, for the first time since the 1930s, investment banks became able to use deposits of commercial banks for their gambling. Before 1999 they were also engaged in so-called in-house dealing, but the amount involved was small. But after they got deposits—which is a huge amount of money—they were able to gamble much more, especially in derivatives.”

He noted that he was on the World Bank team that came up with the first “put” option derivative attached to World Bank bonds. “So I know what kind of instrument they are.”

Comments from LaRouche

Lyndon LaRouche, in a webcast on Oct. 11 at larouchepac.com, was asked about Kotegawa’s warnings. He replied:

“Here is the area in which the United States comes to the opportunity to play a leading role, *globally, again*. What we need, first of all, is Glass-Steagall renewed in the United States. We also have to do one other thing, which was not always that clear: We now have to make sure that this is a *credit system, not a monetarist system*. What that means, is that we are, the United States, in particular, going to take leadership on this issue, because of our history and because of what lies within us; we are the best qualified on the planet to create an international treaty-agreement among sovereign nations. What we will do is extend Glass-Steagall, as the basis for international agreements among sovereign nation-states. We’re not going to take their sovereignty away from them. We are going to agree with them on a *sovereign agreement*.

“Because, what’s the reality? Why is this possible? It’s possible because every part of the planet is either bankrupt, or about to plunge into hopeless bankruptcy. Therefore, we need to *cancel the monetarist system*. The only way to cancel it, properly, is to come in and say, ‘We forgive you! You can now have a partnership, with us, as a sovereign nation-state, among sovereign nation-states, which will create an international equivalent of a Glass-Steagall system.’

“Now, the fact is that Europe and the United States and most of South America and most other parts of the world are *bankrupt*, or becoming bankrupt. So, they don’t have any basis for saying, ‘You’ve got to protect our interests.’ Because their interests are not protected, as long as they are run under a monetarist system. Because the whole planet is bankrupt! Some people may claim they have some credit to their advantage, but when you look at it closely, in terms of historic functions, it ain’t there.

“So what we have to do, is simply get rid of the monetarist system! The way to do that equitably, is to have a council among nations, to agree on a system of sovereign nations, based on a credit system; because there are no monetary assets. The stuff is so polluted—for example, Wall Street has *no actual net value*. Wall Street is simply a farce, they’re bankrupt; it cannot be saved. It is *hopelessly* bankrupt. It is *dead*, in principle.

“So, what we need, are agreements among sovereign nation-states, which could be made in a reasonable way, to have the currencies of the planet, each currency as sovereign, but with guarantees among each other, for regulation. That is the only way in which we can possibly achieve a recovery, a physical-economic recovery, from the mess that exists now.

“We in the United States must initiate that, because if we don’t initiate it, then the other nations will be queasy. They will not exactly go along with this. They need this as much as we do, probably more. We can defend Japan, we can defend China’s attempts at achievements, we can defend other nations throughout the planet, on the basis of an international agreement on a system of sovereign nations, as a credit system. Then we can work together and solve a lot of problems, because once you have that agreement, it will give us the mechanism needed to do everything that has to be done. There may be some strong debates about this, but so what? The fact is, we may have debates, but they will be debates which will *succeed*. They may be troublesome, but they will succeed, because that’s the only thing that’s going to work on the planet now.

“This is our great moment of opportunity! It is a great opportunity for the United States, because it gives *us* the opportunity, as the United States, to contribute what is of utmost value to the world as a whole: the ability to create a system of that type, a credit system as opposed to a monetarist system. And that’s where we have to go.”