pan's Asia trading partners, have prompted U.S. Treasury Secretary Robert Rubin and Ambassador Tom Foley in recent weeks to make repeated pleas to Japan to implement some effective tax stimulus to reverse the economic slide, in effect to postpone the austerity timetable.

And now, the 'Big Bang'

The present situation can euphemistically be described as a lack of consensus in leading Japanese policy circles. Some would call it chaos. The scandals, arrests, and suicides of numerous leading Ministry of Finance and Bank of Japan officials in recent weeks, have effectively destroyed the traditional agencies which have directed Japanese economic policy in the postwar period, leaving a huge policy vacuum, being filled at present by squabbles among divided political party fractions, in and outside the LDP.

To make matters worse, the Hashimoto government has decided to go ahead with a long-debated series of financial deregulation measures, ostensibly aimed at making Japanese finance a "global player" again. The deregulation measures, called in Tokyo the "Big Bang," in reference to the deregulation of the City of London's financial rules in October 1986, will have the effect of pouring kerosene on the smouldering ashes of the Japanese banking system and the economy.

Under the Big Bang rules, which went into effect April 1, companies or individuals, for the first time, will be able to engage in foreign exchange transactions offshore, without prior permission from the Finance Ministry. Anyone can hold dollar or other foreign currency bank accounts, and buy foreign securities without restriction. The Big Bang rules all aim at liberalizing capital flows between the Japanese yen and offshore markets. This will mean a flood of money out of the yen into the dollar, or into Europe, where it can earn much more in interest than in Japan. Ten-year Japan Government Bonds today offer a miserly 1.5% return, the lowest since the 16th century. U.S. Treasury securities pay some 5%.

However, that flight out of the yen threatens to detonate another crisis. With the domestic economy already depressed, banks have been squeezing loan clients, especially smaller businesses, to repay loans, not roll them over. This, in order that banks can meet the 8% Bank for International Settlements minimum capital reserve against possible bad loan losses. This process has created a "credit crunch," which in turn is forcing record business failures, and rising unemployment, hitherto unknown to Japan.

The physical economy is reeling. On March 30, the Ministry of International Trade and Industry (MITI) announced that industrial production fell 3.3% in February alone. Official unemployment rose a record rate of 3.6%. Projections are that in March and April, industrial production will drop by at least 2.5%.

Little wonder that with capital lining up to leave Japan; with banks facing competition, under the Big Bang, from foreign banks and firms; and with the Asian crisis now entering a new, deeper economic collapse phase (some 40% of Japan's exports last year went to Asia), the Tokyo Nikkei stock market is falling sharply. On April 2, the Nikkei closed at 15,700, the largest one-day drop since January. The trigger reportedly had been a Bank of Japan *tankan* survey of business confidence, revealing a catastrophic plunge in that confidence compared with the December survey. Masatoshi Kikuchi of Daiwa Research Institute commented, "If there is no announcement of large income tax cuts soon, the Nikkei average could fall as low as 15,000."

Given present trends, that may be wildly optimistic. Market insider reports are that various speculative foreign hedge funds have taken out futures positions betting on a Nikkei of 14,000. One British financial firm, Fleming Securities, is betting the Nikkei will hit 12,000. In December 1989 it was at 39,000, before the bubble economy burst.

"Normally the Japanese government doesn't take decisive action unless things reach crisis proportions," noted Dresdner Kleinwort Benson economist Geoff Lewis. "Well, the *tankan* survey is saying, here it is, this is the crisis. This is the starkest possible warning the Japanese have to get their act together." Whether they do, and move decisively in the directon of the earlier hint by Vice Finance Minister Eisuke Sakakibara, and back a call for convening a new Bretton Woods conference, remains to be seen. What is clear is that Japanese "business as usual" is over.

Documentation

World press calls for a New Bretton Woods

Argentina

The newspaper *Clarín* on April 1 published an article by financial journalist Carlos Scavo, headlined "A Crisis and Four Lessons," with a kicker which asks: "What should a Central Bank do: Rescue the financial sector, or look after the real economy? This question poses another one: Is it not time that a 'Bretton Woods II' redefine what a Central Bank is?"

The article came out the same day that *EIR* held a conference on the New Bretton Woods in Buenos Aires.

The article reviews an analysis of the Asian crisis prepared for "Conjoncture (Paribas)," by Pierre Blanque, described as an OECD expert, which appears, from *Clarín*'s report, to warn against hyperinflationary "bubbles within mega-bubbles."

Blanque's four lessons, as conveyed by *Clarín,* are:

1. Central Banks and the IMF insist on bailouts through the financial markets, but this just adds to speculation, and

thus "shifts problems in time and space, which, in the end, tends to intensify them."

2. The "irrational exuberances" of the stock market, fed by monetary expansion of the past years, has created a big bubble. Historically, Blanque warns, bubbles have never been handled well, "and the blood reaches the river."

3. Because the United States is over-indebted to Asia (which holds its Treasury bills), and runs a trade deficit with the region, "the current danger is essentially North American, not Asian."

4. How long can central banks co-exist with globalization? Blanque asks.

Clarín's Scavo adds, as his conclusion: "Is it not time to get serious about a Bretton Woods II?"

Australia

Economics commentator Kenneth Davidson wrote a commentary attacking globalization, in the Melbourne daily *The Age* on March 30. Describing the Bretton Woods controls as restoring "real national sovereignty," Davidson calls for "another Bretton Woods" to solve the problem of out-of-control financial capital, and attacks globalization as an excuse to roll back the welfare state and workers' rights. Davidson points out that globalization is not new, and that in terms of trade and capital flows, the world under the 1800s gold standard era was just as much integrated as it is today. The difference, he says, is "the nature of capital flows. Then, capital movements were closely associated with real investment. Now, they are increasingly short-term, highly speculative and unrelated to the business of financing investment in trade and industry."

Describing the economic chaos surrounding the Great Depression and World War II, Davidson writes: "The solution was the creation of the IMF, which imposed an international regime of regulated capital flows and fixed exchange rates, based on the U.S. dollar, to prevent destabilizing movements of speculative capital. These controls restored real national sovereignty so that individual countries could manage their own credit and the level of domestic demand, without fear of a run on their national currency."

Davidson describes the 1971 abandonment of the Bretton Woods system as letting financial capital off the leash again, which created more pronounced boom and bust business cycles, bringing higher unemployment, greater inequality, etc. The existence of the welfare state in the West, he writes, has "arguably prevented" a complete social explosion, but "the welfare cushion is not available in East Asia." Asking whether the previous week's $124 billion Japanese budget stimulus will be enough to avoid recession in Japan and full-scale depression in the region, Davidson concludes, "Even more importantly, for how much longer will the world economy continue to limp along before the political will is created for another Bretton Woods and measures to tame financial markets?"

Interview: Lyndon H. LaRouche, Jr.

Save nations, don't bail out the banks

The following is excerpted from a March 24 "EIR Talks" radio interview with Lyndon H. LaRouche, Jr. The interviewer is Tony Papert.

EIR: What are the prospects for the 22-nation Washington meeting April 16, on the world monetary system?

LaRouche: Well, there are some good signs, but overall I'd say, as of now, the situation is lousy. It looks like we're going into the deepest depression ever, and a dark age in the next century, as it stands now. That is, if you were a betting man, as the man says, eh?

Now, I'm doing everything I can to change this. But, if you take me out of the situation, you take the effort that my friends and I are doing out of the situation, I can guarantee you that the Clinton administration will fail; it will fail to take the kind of leadership that is needed, required from the U.S. government to save the world in this crisis. The *Titanic* will sink; the *Titanic* being the present world civilization, which is heading right for the icebergs, and they can't get the captain to change the direction. Only the President of the United States has behind him the potential forces to bring other forces to bear, around the world, so that collectively those forces, *led* by the President of the United States, could change this thing, and save the world system.

Otherwise, what we're going into is the worst financial and monetary crisis in all known history of European civilization to date, that is, back, almost from Roman times. The only thing that's comparable to this in the recent 1,000 years, or 600 years or so, is the Dark Age which occurred in Europe with the bankruptcy of the Lombard banking system. . . .

LaRouche's policies must prevail

Now, the President, especially with Robert Rubin as the Treasury Secretary, seems inclined to do *some* of the many things which must be done, *as a package,* to deal with the present situation. There's an increasing clamor around the world for measures in that direction. However, so far, at this point, I am the only international spokesman who has put forth *a package* which is adequate to the situation.

So the question of whether my voice is heard in shaping the agenda within the Willard Group meeting on April 16, is going to decide whether this planet goes into a deep, deep, deep economic depression, or not.