

Japan in political, economic collapse

by Our Special Correspondent

The shell game is over. According to the latest statistics released by the Japanese Economic Planning Agency (EPA), the Japanese economy is officially in the onset of a full-blown economic depression. The previous official characterization by Tokyo, was that the economy was in a state of “stagnation.” Now, part of the truth is out: The Japanese economy contracted 0.7% in the year ended on March 31, its worst performance since the end of World War II. EPA director Taichi Sakaiya reported that the economy could shrink an additional 0.5% in the coming year. Probably the most significant indicator is the machine-tool sector decline from last year of 7.8%, while auto production and sales are also in a deep descent.

At an Aug. 12 press conference, EPA chief Sakaiya also reported that housing construction and capital spending are foundering, production is on a declining trend, and corporate profits are sliding. Unemployment hit a record-high 4.3% in June, an event unheard of in postwar Japan.

The entire financial sector, including the top 19 city-banks, has incurred huge losses as a result of not only the bad real estate debt, but also the systematic collapse of the Asian economies, in which Tokyo is the largest creditor. Japan’s largest bank, the Bank Tokyo-Mitsubishi, has lost 35% of its stock value during the year to date, and could go down further because of the inability of the Asian countries to repay their debt. As a result of both the financial and physical contraction of the economy, the yen fell below 147 to the dollar, and, with no joint U.S.-Japanese intervention to defend the yen in sight, the yen could slide to the 160-180 level. Unlike last June, when President Clinton ordered U.S. intervention, this time there is no prospect of such action.

LaRouche: Japanese leaders are crazy

The global impact of the Japanese developments is enormous. Lyndon LaRouche recently stated that the Japanese elites at this moment in history are simply “crazy.” They don’t want to face the reality that the “real estate bubble they created” is indefensible, and as a “political class,” the present leadership’s defense of their “property values” could trigger a global collapse. “Because the difficulty right now,” LaRouche said, is that we are faced with a situation, where the system is blowing, things are getting worse and worse. “If Japan does not correct the errors in its thinking very soon,

the political, economic, and financial situation in Japan will become incalculable.”

On Aug. 7, newly elected Japanese Prime Minister Keizo Obuchi promised some quick moves to pull his country out of its “deepest recession in decades.” But, his new cabinet is an amalgam of Liberal Democratic Party (LDP) factions, each with its own interests on how to handle the crisis. The political opposition which controls the Upper House of the Diet (Parliament), is opposed to many of the proposals of the Obuchi cabinet. The latest polls show that this government is the most unpopular government in modern Japanese history; even the Japanese Communist Party is more popular.

To make matters worse, Obuchi’s appointment of Kiichi Miyazawa to the Finance Ministry post is seen as a ploy to cover up the incompetence of the present policies. Miyazawa was not only Finance Minister during the “bubble economy” years, but was also a Prime Minister during the early 1990s, when President George Bush was in office. According to a high-level Japanese source, the Miyazawa appointment “is simply a ploy to convince the global markets that there’s a competent manager at the helm. Nothing could be further from the truth. He’s the man who pushed the ‘bridge bank’ idea during the Hashimoto government.”

Although Miyazawa’s public role in the bridge bank proposal is generally known, in reality the bridge bank idea came from Harvard professor Jeffrey Sachs, whose advice on how to deal with the “bad loan” problem has been solicited by the LDP leadership. Sachs, who almost singlehandedly destroyed the Russian economy, and William Seidman are pushing Tokyo into developing the unworkable “bridge bank” idea—a poor replica of the failed Resolution Trust Corp. plan to solve the U.S. savings and loan crisis during the 1980s (see *EIR*, July 31, pp. 15-25).

As one former senior Ministry of Finance official told *EIR*, “The bridge bank is doomed to fail. It’s simply a technical mechanism designed to save insolvent banks.” Moreover, the amount of bad debt is growing rapidly, and, according to U.S. Treasury sources, that debt is already well more than \$1 trillion. This U.S. source stated that unless a major overhaul of the banking system is carried out, no “technical” measures will work.

Another former Finance official was even more explicit. “We’re headed for a disaster, and unless some approach like Mr. LaRouche’s bankruptcy reorganization is taken as a priority, Japan is slated for troubled times,” he said. What this official found attractive about the bankruptcy reorganization proposal, is that the Japanese government could set up a new national bank and buy the designated bad debt and discount it, but then sell the debt as a future credit instrument for investment into the productive economy—both in Japan and throughout Asia. Although this is a minority view, it is gaining currency among some Japanese policymakers.

Unfortunately, the Obuchi government’s package is a reworked version of the previous government’s proposals. A

call for tax cuts on personal and corporate income and an increase in budget allocations for public works projects to stimulate the economy, are very slight improvements from the Hashimoto cabinet's ideas. On another level, Obuchi, Miyazawa, and leading bankers are still immersed in disputes as to what constitutes "bad debt," and how to mediate disputes over ownership of property which was used as collateral for loans gone bad.

According to Bloomberg news service, Obuchi's proposals to deal with Japan's internal bad debt include the following: expediting court auctions of such properties and allowing private companies to offer loan-collection services; publicizing information on properties compiled by the Housing Loan Administration Corp., a public company set up to collect loans left by Japan's seven failed housing lenders; and, making it easier for creditors to sell properties without the consent of the debtors.

This package does almost nothing. It shows how deep in denial the leading institutions are. In fact, the LDP and the banks are locked into an arrangement not only to protect their real estate holdings, but there is a political alliance including the LDP, the banks, and the Ministry of Finance.

"It's an oligarchic arrangement," one Japanese source reported. "Unless there's a complete catastrophe, there is little that could be done, since the banking establishment finances the political elections of the LDP, and the LDP, in turn, protects the banks from transparency and full disclosure."

Compounding the incestuous arrangement is the fact that the newly appointed special adviser on financial matters to the Obuchi cabinet, is Toyoo Gyohten. A graduate (like all Finance officials) of Tokyo University's Law School, Gyohten is a senior adviser to the Bank Tokyo-Mitsubishi. He was Vice Minister for International Affairs during the infamous Plaza Accords negotiations in the 1980s, when the Japanese yen appreciated 100%, from 250 yen, to 125 yen to the dollar. Although Gyohten decries the present instability in the international monetary system, and would like a more predictable exchange-rate mechanism, he has advocated the "internationalization of the yen" as the alternative to maintaining the dollar system. At this point, Gyohten's advice is predicated on saving the big Japanese banks, rather than forcing through a major bankruptcy reorganization. In addition, officials like Gyohten and Miyazawa are still deeply attached to the International Monetary Fund's austerity packages for Asia—a policy that has unleashed a complete breakdown crisis throughout the region.

U.S. fears grow

Despite the public face displayed by the Clinton administration, that it can "crisis manage" the situation, the reality of a Japanese meltdown is starting to dawn on some officials. President Clinton cut short a West Coast fundraising trip, not only because of the U.S. Embassy bombings in Africa, but

because the crisis in Japan is growing. Clinton held discussions with National Security Adviser Sandy Berger, Federal Reserve Chairman Alan Greenspan, and Treasury Secretary Robert Rubin on the looming disaster in Japan.

According to one high-level U.S. source, the administration is desperately hoping that the measures taken by the Obuchi government stave off the worst from happening. However, Fed Chairman Greenspan's disquiet with Japan was revealed when word leaked out to the German magazine *Focus*, that during his conversations with German Chancellor candidate Gerhard Schroeder, Greenspan said that he believes the Japanese crisis is not only deepening, but is almost uncorrectable.

Without a major change in the political leadership in Tokyo, "we are slated for a situation not unlike the 1930s," said a senior Japanese official. "The problem is that the politicians and the Obuchi government are only concerned about developments in Japan and not the reality of the global crisis, especially in Asia. We must have a quick change in the political composition within the next few weeks in order to force through some necessary changes." When asked what these changes should be, he stated, "Unless there is a new Bretton Woods policy that is adopted not only by Japan, but by the U.S. and the rest of Asia, the world is essentially headed for political and social chaos."

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