Is Japan Now Facing a 'Reverse Pearl Harbor'?

by Kathy Wolfe

Wall Street and London predictions of a 1929-style run on Japan's giant banks grew to a dull roar in mid-January, with the Jan. 3 *Wall Street Journal,* and the former British Ambassador to Tokyo on Jan. 14, comparing Japan to Argentina. Top financiers Goldman Sachs and Morgan Stanley, the *Journal,* the *New York Times,* and the London *Financial Times* all played up the Jan. 4 study by the American Enterprise Institute (AEI), the neo-Conservative think-tank in Washington, which claimed Japan's banks have a "negative net worth of $1 trillion" and "constitute a systemic risk to the global economy."

"A Financial Super-Crash in Japan" was the headline of an editorial in Germany's daily *Die Welt* on Jan. 15 by Massachusetts Institute of Technology economist Rudiger Dornbush, who writes: "A Japan mega-crash might happen in a few years, but could also happen tomorrow." It would start with "private household" runs on the banks, leading to a crash of the yen, then "an explosion" of government bonds. "From one day to the other, Japan could plunge into a new Great Depression." Dornbush featured the identical trigger mechanism as did the AEI report, which states that the crash will begin when Japanese citizens, "convinced that liabilities of Japan's banks far exceed their assets, withdraw funds from the Japanese banking system," and there ensues "a full-scale 'run' on the banks."

Because a collapse of major Japanese banks, several of which have $600 billion to $1 trillion in assets each, presumably could bring down half the banks in the United States and Europe, why are these Anglo-American spokesmen playing with matches around the Tokyo gas pump? Dr. John Makin, "resident scholar" at AEI and author of its January paper "Japan in Depression," says that the New York banks have "minimized down to nothing their exposure to Japan," and are ready for a Tokyo crash. "They are all aware of this situation and they have all gotten out," he said in a Jan. 16 interview obtained by *EIR.*

'The Japanese Have No Guts'

In fact, Makin praised Goldman Sachs, Morgan Stanley, Citibank, and other Anglo-American speculators for their current "short sale" dumping of Japanese bank stock, which is egging on the crisis. "Why not?" he said. "If a bank is about to fail, you *should* short their stock."

Makin and company are insane, of course; a crash of Japan's $10 trillion banking system can't possibly be contained. Much of the Japan mess has been caused, in fact, by Washington's demand that Tokyo act as the "firewall" for the overvalued dollar, by printing enormous amounts of yen to support the U.S. currency, as U.S. Democratic Presidential pre-candidate Lyndon LaRouche explained in "AEI's Makin Misses the Point" (*EIR,* Jan. 18, 2002). Without its Asian firewall, the dollar itself would quickly crash.

But mere reality may not stop these lunatics. Because the Anglo-American oligarchy's entire global financial system now faces collapse, as LaRouche has stressed especially since Sept. 11, their minds turn to making trouble for others, and in particular, to theft: Where can we make a quick profit, by grabbing someone else's assets? It appears that the Japanese markets, which are ready to blow up because of their own mistakes, are also facing, on top of that, a foreign-predator speculative attack far worse than what was done to the Thai baht in the Summer of 1997.

In the end, Makin said, Wall Street believes it can get away with treating Japan like Thailand, or Russia in 1990: "That's the end-game. The Japanese have no guts. The Japanese consistently do nothing, and then they are stuck," he said, explaining why the U.S. banks are shorting Japan bank stocks. "Since we know that they are going to insist on doing nothing, we may as well act on that assumption. So my advice is: Prepare for a crash, because it's probably going to happen."

There, unfortunately, Dr. Makin has a point. Japan has been profiled and pigeon-holed as a country which never takes initiative or forceful action. This is not because they are dumb, but because Japan's elite has made large profits from its junior-partner status with Washington for 50 years, exporting consumer goods to the United States and Europe. "Japan has a parliamentary system with a one-party government which will never do anything," Makin said—and many Japanese agree. "Koizumi's government is too weak to change the entrenched old-style bureaucrats who refuse to do anything."

Trigger Mechanism

Now, however, that game is over, and as Makin put it, "Japan has no options"—if Tokyo behaves according to profile. What is required, is to *break* the profile. As LaRouche has insisted, the U.S. banking system is as bankrupt, or more so, than Japan's, and no national banking system can be saved, by itself, from today's *global* crisis. There are no domestic measures which can work. Japan's only choice is to come out of its shell and take what LaRouche calls "strong and pungent" measures on the global stage. The reality is that the entire post-1971 monetary system is broken, and must be replaced by a New Bretton Woods system. The last thing Wall Street expects the docile Japanese to do, would be to call for an international conference to construct an entirely new monetary system capable of coordinating a sound international banking reorganization. That is precisely what Tokyo should do.

But if Japan performs according to profile, it will be destroyed. The threat being mounted is: Launch a press campaign to try to frighten Japan's citizens into a run on the banks. Leverage that to an uncontrolled run on the yen. Once the value of the currency and banks fall, go in and buy valuable assets cheaply.

This is the order of speculative attack indicated by AEI's Makin, and the numerous press pieces which cite him in recent weeks. In his own article, Makin concludes that Japanese domestic "depositors, convinced that the liabilities of Japan's banks far exceed their assets, will continue to withdraw funds from the Japanese banking system. There will be a full-scale 'run' on the banks."

Asked in an interview why Japan's citizens should suddenly do this, Makin simply asserted it. "Clearly there are a lot of banks in Japan that aren't viable. The public is going to react and start moving money out of the weaker banks, and into the Top Three banks they think the government views as too big to fail—and also into the postal savings system."

He noted that Dornbusch, in *Die Welt,* pointed to the same trigger, "private households start[ing] to liquidate domestic savings," which was also cited with no particular reason. A collapse in Japan, Makin said, would be too hard to start by a foreign run on the yen, because "most Japanese have no dealings abroad, so they don't care at all about the exchange rate."

The domestic run could be touched off when Japan's deposit insurance is deregulated on April 1, so that savings deposits over 10 million yen are no longer government insured, Makin said. "Or it could happen sooner; something entirely new could crop up." Citizens, he believes, might switch to checking accounts in the Big Three banks, which will be guaranteed until 2003. "Or people could run the banks much sooner—just put the cash under the mattress! They get no interest at the banks anyway. The only reason to put money in a bank is safety, and if you think that's gone, you remove your money."

Asked whether Japanese citizens are really just going to remove $12 trillion worth of yen from the banks and postal fund, and put it under the mattress, he said, "Not all of it, but enough to cause a run on many banks other than the Top Three. Why not? When I lived in Japan, I did everything in cash; people are used to a cash economy."

After that, Makin asserted, the Western banks could have a field day. Asked if the crash of major Japanese banks would cause a collapse of the U.S. banking system, he flatly replied, "No. It will hurt the economy of Asia, which will hurt our exports; it will worsen the global economy and strengthen China, which is bad for us geopolitically." But why should a Japan bank panic bring down U.S. banks? he said. "Most big U.S. institutions and indeed most foreigners doing business in Japan have minimized down to nothing their exposure to Japan."

It was pointed out to Makin that in 1997, Citibank almost went under when South Korea had what is, relatively speaking, a much smaller problem than this. Makin's view is that "In 1997 Citibank had a big exposure in Korea—but no U.S. institutions have any exposure worth talking about in Japan now. They are all aware of this situation and they have all gotten out."

That's why, he said, Goldman Sachs and many other Western hedge funds have been shorting Japanese bank stocks. "Why not? If a bank is about to fail, you *should* short their stock. If the reality is, the bank is not worth what the stock market says, then you should sell it for what it is really worth. Just Like Enron; if smart market players had known Enron was going to go under, then it would only be good business sense for them to have shorted the stock, if they had known."

'Tokyo, Argentina'

Unfortunately, Dr. Makin is not alone in his madness; most of the major Western media have begun singing this song. The *Wall Street Journal*'s Jan. 3 editorial, entitled "Tokyo, Argentina," characterized Japan as just another Third World do-nothing country waiting to get hit. "Argentina's economic collapse has dominated recent headlines, but the slow-moving crisis that is Japan may deserve even more attention. Like the folks in Buenos Aires, the political class in Tokyo can't seem to break out of its self-destructive policy habits," the *Journal* wrote. Alas, Japan won't consider a Ronald Reagan-style tax cut—the *Journal*'s "cure-all"—so "unless its politicians think anew, they will stay on their road to Argentina."

On Jan. 8, the *Journal* played up the AEI report: "The U.S. think-tank American Enterprise Institute released a report last week saying Japan's banking system is insolvent, and that the government will have to inject the yen equivalent of $1 trillion."

"There are warnings of a banking meltdown [in Japan] by Spring," the *New York Times* said on Jan. 9. " 'By the end of March, we will have a financial crisis—that is 100% true,' one ruling-party legislator said. As a group, Japanese banks have a negative net worth of $1 trillion, according to a study released last week by the AEI. Bailing them out would swell Japan's public debt, already the world's largest, by 15%, and threaten to crush the country's currency and bond markets, the Institute said. 'Japan's deflation and debt crisis now constitute systemic risk to the global economy,' the report warned."

"What is the difference between Japan and Argentina? Answer: Five Years. That was the riddle, or sick joke, said by the *Financial Times* in London to be circulating in Tokyo over the recent holidays," wrote Hugh Cortazzi, former British Ambassador to Tokyo, in the Jan. 14 *Japan Times.* "My immediate reaction was that the idea was silly. . . . But even mountains can be eroded."