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Editorial

When the Japanese go marching out

Never before in the course of financial events, have so many done so much for so few. So it appears to the European and Japanese central banks. After printing $70 billion of their own currencies to purchase unwanted dollars during the first half of this year, America's trading partners have exhausted their capacity to subsidize Washington's uncontrollable deficit.

So much for the Reagan administration's pathetic, doomed effort to postpone the great financial reckoning until after the 1988 elections. The White House has lived off the printing presses of foreign central banks since late in 1986.

Now, just as the federal debt-ceiling cliffhanger reaches its end-September dénouement, just as the Third World debt crisis reaches a new pitch of intensity, and just as 10,000 bankers gather in Washington for their annual *Walpurgisnacht* at the International Monetary Fund, the other central banks shut down the game.

July's $16.5 billion trade deficit, an astonishing $198 billion at an annual rate, was not the last straw. *That* broke the back of the big subsidy two weeks earlier, when the Federal Reserve decided to blackmail the Germans and Japanese, by holding back from foreign-exchange market intervention to support the dollar, while the dollar plummeted from DM 1.90 to DM 1.79, in one of history's fastest descents.

Fed chairman Alan Greenspan threatened his colleagues, in effect, with a dollar crash that would ruin all of them, in an overt blackmail attempt, aimed at forcing them to continue their huge volume of dollar purchases.

He received a response that shook world bond markets, and forced long-term Treasury bond yields up to their highest level in two years. Japan, Inc. placed the severed head of Takeho Chemical on a pike in the marketplace, as a stern warning to speculators. The American bond markets promptly crashed. Why?

For months, Japanese officials, and astute market observers, have known that Japanese banks' plunge into the American Treasury debt market threatened the safety of the Japanese banking system itself.

Japanese institutions purchased a junk bond of sorts, namely the obligations of the U.S. government; their trading losses on such purchases could wipe them out. Market reports are circulating that at least one of the top eight Japanese banks has landed in serious trouble as a result of its U.S. speculations. The Japanese banking system simply cannot continue buying American paper that has depreciated, on foreign-exchange shifts alone, by 45% in the past two years, and lost an additional 15% of its price due to the decline of long-term bond prices in the U.S. market itself.

To make up their losses on such purchases, they must speculate in bond futures and other financial instruments, raising the danger that the initial loss may be multiplied. That is what happened to Takeho Chemical, and the Japanese authorities decided to make it a horrible example, before much larger institutions went the same way.

Within days of the Takeho Chemical announcement, the European central banks (as reported elsewhere in this issue) wheeled the covered wagons into a circle, preparing to insulate the European Monetary System from a dollar crash.

It is not as if the Japanese and European central banks had made a decision to let the U.S. banking system crash, a prospect they abhor. On the contrary: The rudderless state of Washington compels them into an accretion of small, unavoidable actions; each of these actions, by itself, intends to postpone the inevitable, but the sum of them brings the inevitable closer.

Washington must force through a top-down reorganization of developing-sector debt, and an emergency program to provide trade-credits in cooperation with its trading partners, such as *EIR* founder Lyndon H. LaRouche, Jr., has presented in various published locations. President Reagan must drop the illusion of recovery, before the illusion drops *him*.

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