

# U.S., Japan cooperate to support the yen

by Our Special Correspondent

In a dramatic last-minute move to prevent a collapse of the Japanese currency, U.S. Treasury Secretary Robert Rubin intervened into the currency markets and ordered the New York Federal Reserve to buy about \$4 billion worth of Japanese yen. Coordinating this move with Rubin was Japanese Vice Minister for International Monetary Affairs Eisuke Sakakibara, who in conjunction with the Bank of Japan, purchased \$2 billion worth of yen.

As a result of this intervention, the yen, which had fallen to a value of 147 to the dollar, shifted upward to 137 to the dollar.

The U.S.-Japanese coordination only temporarily stopped a dangerous slide that could have led to a global financial meltdown. Currency speculators who had taken out a short position against the yen lost billions as a consequence of the government-to-government intervention.

Just prior to Rubin's decision, President Bill Clinton and Japanese Prime Minister Ryutaro Hashimoto were on a "hot-line" phone conference discussing the yen/dollar exchange rate and the measures that the Japanese political and financial leadership would have to take to ensure that a further deterioration of the yen did not occur. According to well-placed U.S. sources, Hashimoto pledged that the problems of the highly indebted Japanese financial system would be addressed.

Another critical factor in forcing the United States and Japan to take action was the warning by the Chinese government that the renminbi would be devalued. China's entire political and financial leadership was mobilized during the ten days prior to Rubin's decision, and let it be known that the yen's rapid deterioration could not be allowed to continue. China and the Hong Kong Monetary Authority were quite worried about the decline of the Heng Sang Stock Market and

## Swedes wonder: Will Soros deliver the dope himself?

When international speculator George Soros visited Stockholm on June 11-12, at the invitation of the Swedish International Peace Research Institute (SIPRI), he was met with sharp criticism, both for his support for the legalization of drugs, and for his assault on nations by financial speculation.

Soros was supposedly invited to offer a critique of the globalization process. "That's like asking the goat to be the gardener," wrote Ulf Sandmark and Oscar Porath, two associates of Lyndon LaRouche, in a letter to the editors of the daily *Dagens Industri*, which was published on June 11. "Soros's critique does not aim at decreasing globalization; he wants to unite it with a global society," they charged.

On the day that Soros arrived, organizers from the European Labor Party (EAP), LaRouche's Swedish associates, held a rally near the place where Soros would be speaking. "Dopey-Georgie Go Home" and "Speculators Are More Dangerous than Nuclear Weapons," their picket signs read. The evening TV news broadcast film footage of the demonstrators chanting, "No to drug legalization!"

Apparently, one crook in Stockholm that day was not enough: Harvard flea-market economist Jeffrey Sachs also visited the city, and the EAP team moved their rally to that

meeting, where Sachs was to be received by the King and the Swedish financial elite.

On June 12, Soros's troubles continued, as the first national TV channel reported protests against him from one of the main anti-drug organizations, the RNS, and from the Conservative opposition leader in the Stockholm City Council, Carl Cederschild, founder of the European Cities Against Drugs (ECAD) initiative. The representative from the RNS charged that, by inviting Soros to town, "somebody is trying to make his drug liberalism look presentable." Soros had just published a call for drug legalization in the *New York Times* on June 7, which the Swedish commentators noted. The Swedish Queen was criticized for her collaboration with Soros on the board of the Mentor Foundation, which is supposedly to prevent children from taking drugs. The RNS has called for the Queen to either resign from the board or make sure that Soros does—but so far, in vain.

The popular daily *Expressen* asked on June 12, "Who will deliver the drugs, Soros?" The author shows that Soros is promoting the legalization of heroin in the United States, and that he is known for his support for the decriminalization referenda in California and Arizona. "Has the Swedish government ever thought that George Soros might have an ulterior motive?" the paper queried. "If physicians are to prescribe marijuana for various illnesses, who will deliver the drug? If all the heroin addicts in the world are supposed to get their heroin for free, who will deliver it?" "It's just money behind it," said Sweden's former Justice Minister, Gun Hellsvik.—*Lotta-Stina Thronell*

the Hong Kong dollar, which is still pegged to the U.S. dollar. In fact, the People's Bank, the central bank of China, has depleted its hard currency reserves during the last eight months by \$40 billion. Any further outlay of funds to defend the Hong Kong dollar could open China up for a hedge fund attack.

### Political paralysis

Japan's current crisis is directly related to three main factors. First, the April 1 deregulation of the financial markets led to unprecedented capital flight, and currency speculators were taking short position on the yen; second, the Tokyo Stock Exchange bank stocks were losing value rapidly; and third, the Economic Planning Agency admitted that Japan's real economy was shrinking. Japan became extremely vulnerable. In fact, some observers in China were beginning to think that the Japanese were deliberately allowing the yen to devalue, in order to make Japanese products more competitive.

Japan's problems are far from over, given the extent of the political paralysis that remains a constant feature of Japanese politics. Despite Prime Minister Hashimoto's desire to reform the financial system, there are many factors which might prevent him from carrying out his pledge. One of these is the role of the Bank Tokyo-Mitsubishi and its head, Satoru Kishi, who is also the executive director of the Federation of Japanese Bankers. Kishi issued a statement following Hashimoto's June 18 press conference, saying that private financial institutions should not disclose the full extent of the losses incurred. According to the rules of globalized finance, were Japan not to disclose the extent of such losses, then the hedge funds and currency speculators would start another round of shorting the yen and fostering more capital flight.

Hashimoto, whose popularity is down to 30%, is caught in a very difficult situation. He has to pull together a new consensus, not only within the ruling Liberal Democratic Party, but with the financial and corporate community, which is deeply divided. What the U.S. intervention accomplished was to buy some time for Hashimoto, giving him about a month to build such a new consensus, before the Upper House election occurs. After that timeframe, anything could occur.

### U.S. 'crisis managers'

The weakness in the Clinton administration's approach remains its crisis-management mentality. Even though the administration's actions have temporarily stabilized the yen, they are not facing the fact that this is a global, systemic crisis. This crisis management mind-set is underscored by the fact that Deputy Treasury Secretary Lawrence Summers was dispatched to Tokyo to follow up the promises that Hashimoto made about "reforming" the system. Summers is meeting with every leading Japanese political and government official, jawboning them into pushing ahead with various financial and economic stimulus packages. Privately, the administration has unofficially backed the trip of former Federal Deposit Insurance Corp. head William Seidman, who was the overseer

of the savings and loan debacle during the 1980s and 1990s, in the hope that Seidman can "help" the Japanese dispose of their bad bank debt.

But none of these maneuvers will work, unless the Asian nations and the United States recognize that we need a new monetary system, or else we are heading for what World Bank official Jean-Michel Severino described as a "global depression."

## Effects of 'Asian crisis' spread to America

by Richard Freeman

The "Asian phase" of the world financial disintegration became more pronounced the week of June 15. While the banking crisis in Japan worsened, the Japanese economy continued to contract: In May, compared to a year ago, machine-tool orders were down 16%, domestic machine-tool orders were down 30%, and car production was down 20%.

If Japan, the world's second-largest economy, and other Asian economies, continue to slide into depression, they will, among other things, slash their intake of imported goods, including those from the United States. This is a fundamental reality, but still, in America, various professional economists and elected officials continue to attempt to filter this reality out, emitting a steady stream of statements that the effect of the Asian crisis is remote. After all, they imply, it's half-way around the world.

That myth is being exploded. The "Asia crisis" is coming home to America.

The most evident manifestation is seen in the Asian airline industry, and the resultant effect this is having on Boeing Corp., America's largest aircraft manufacturer and top exporting company.

### Regional airlines bankrupted

The financial crisis in Asia is bankrupting the regional airlines that connect these nations to each other, and to the rest of the world. Figures from the Association of Asia-Pacific Airlines, reported in the June 15 *Aviation Week*, indicate that air traffic dropped 8.3% in March from the previous year, and load factors (the percentage of seats filled on flights) declined throughout the region.

- In Korea, load factors dropped 27.8%. Korea Air posted a loss of \$267 million for 1997. The airline has arranged for "a relaxed payment schedule" for the planes it has already ordered from Boeing.

- In Indonesia, the regional carrier Sempati has been forced out of business, and the situation for the other carriers