Japan pushed to act on financial system

by Our Special Correspondent

No sooner had his meeting ended with President Bill Clinton at the Tarrytown, New York, Pocantico Hills Estate of the Rockefeller family, than Japanese Prime Minister Keizo Obuchi appeared to have secured a political deal with his domestic opposition on his proposed "banking reform" package. Obuchi was scheduled to brief the Diet (Parliament) on the contents of the discussion with Clinton upon his return to Tokyo. According to well-informed U.S. sources, the meeting between the two leaders apparently produced an understanding that Japan "acknowledges" its responsibility for helping the rest of Asia pull out of the current economic depression. And, Clinton pledged full support to the Obuchi government, in its effort to reform the banking system in Japan.

With Clinton's backing in hand, Obuchi is slated to pull together a new consensus, not only with the political opposition, but within the ranks of his own, highly factionalized Liberal Democratic Party (LDP). Obuchi's daunting task means that he has to overcome years of encrusted factional warfare, parliamentary inertia, and policy paralysis. It should be recalled that prior to the Sept. 22 meeting with Clinton, Obuchi and the opposition were locked in an infernal struggle over the future of the ninth-largest bank, the Long-Term Credit Bank (LTCB).

The LTCB's financial insolvency raised the issue of whether to use "public funds" to bail out the bank, a proposition deeply resented by the Japanese public and the opposition. However, it now appears that the leading opposition spokesmen for the Democratic Party of Japan (DPJ), the Heiwa-Kaikaku group, and the Liberal Party, have endorsed the use of public funds to "save the banking system." But, even this conditional endorsement is fraught with contradictions.

At the center of the turmoil, is a government proposal to inject public funds into the LTCB, which has been verging on collapse for weeks in the face of massive selling of its shares and its growing fundraising problems. A London-based expert on derivatives told *EIR* that the Japanese are caught in a massive derivatives trap, and therefore the issue of bad back debt is now only one facet of the problem.

The LTCB's exposure is far greater than previously disclosed, and the entire Japanese banking system is now faced with $15 trillion in the nominal face value of its derivatives contracts due immediately. These are not short-term derivatives contracts, but are structured on a 2- to 5-year series of contracts of which 2-3%, amounting to $10 billion, must be paid, now. Unless government-guaranteed public funds are used to cover the LTCB portion of these exposed derivatives contracts, the international banks holding these derivatives will call in all their obligations, leading to a blow-out of the financial system.

This is the core of the problem behind Lyndon LaRouche's proposal for the Japanese government to "wipe out these derivatives contracts immediately" (see preceding article). As he stated, there is no way to save the system, and were Japan ready to take this bold move, and follow LaRouche's advice to proceed with a U.S.-style Chapter 11 bankruptcy reorganization, it could lead the way out of the crisis.

Obuchi's paradox

Obuchi's dilemma is that the LDP policymaking establishment is completely beholden to the banking structure, and, if it does not "save the banks," it will lose power. Critical is the fact that the entire Japanese banking system is tied, through its *keiretsu* (interlocking banking and corporate directorates) to the major industrial-trading corporate apparatus. This is the underlying reason why the LDP wants to inject public funds into the banks. The LDP-proposed legislation would replace bank-recapitalization laws with ones that would let the government pump public monies into the troubled banks whose capital reserves have plunged to precarious levels. No new credit has been provided to the industrial and manufacturing base of Japan, which has fuelled a 3.3% collapse in production so far in 1998. The existing law empowers the government to draw on a reserve pool of approximately $10 billion to revive troubled banks and prevent their failure.

Sowing some confusion in this process has been the LDP's Secretary General, Yoshiro Mori. In a Sept. 23 press conference, he stated that the government will keep the option of invoking the existing law to inject funds into the LTCB, until the Diet enacts a new recapitalization law. But, the largest opposition party, the DPJ, has rejected the idea, saying that any injection of public funds into troubled banks would be tantamount to saving individual banks, rather than carrying out the nationalization of all troubled banks.

However, after several hours of intense negotiations, DPJ spokesman Yukio Hatoyama clarified his party's position, and expressed conditional support for the government plan, declaring that it is "now high time for us to discuss measures by distinguishing banks whose collapse we should tolerate, from banks whose collapse we should prevent." He added, "There will be some banks which we should have merge with other banks."

If Japan does nothing to move the situation forward, whatever Clinton said to Obuchi will mean nothing, and the collapse of the Obuchi government would then be imminent. The forecast of LaRouche, that a financial meltdown is the reality, will have been all too prescient.