ignorance of most Americans, who imagine these countries all seem alike, the 13 ASEAN-Plus-3 partners are in fact completely culturally dissimilar. Issues such as these are boiling to the surface, country by country, in each of the bilateral relationships among the 13.

Cooperation Is Possible

Cooperation, however, is not, in fact, impossible. Several others of the two dozen Korean leaders whom I met, did worry that cooperation with Japan "will take a lot of time," and feared therefore that a functional Asian monetary system will not be able to be created in time to ward off the next currency crisis. But most top Korean negotiators insisted on balance that the cultural hurdles could be overcome, because they must be overcome. "We can cooperate, we must let the past be the past and cooperate, in order to save our children," one key financial planner told me firmly. "Don't let anybody think we can't do it. We can do it, because we must, to survive."

At a certain level, the anger constitutes an emotional block which arises due to the understandable fear of those enormous elephants on the region's front lawn. What leader would not experience fear when faced with the threat of losing his nation's banking system, foreign trade, or currency itself? Fears, however, must be faced squarely if the region is to survive. The AMF can be created and the IMF can be junked if Asia's leadership can summon the necessary courage. History has presented them with a unique opportunity to change the course of all human events, and this concept has often inspired men to surprise themselves.

Interview: Akira Nambara

'Elect LaRouche President To Improve World Economy'

Dr. Nambara, now a private corporate official, is the former Executive Director of the Bank of Japan (BOJ), and is well known in international circles for his outspoken views. Dr. Nambara has signed the call of the Ad Hoc Committee for a New Bretton Woods System. He was interviewed by EIR*'s Kathy Wolfe in Tokyo on July 27, and again by telephone on Aug. 15.*

EIR: You are well-known in Japan for critical views on the current post-Bretton Woods global financial situation, and your concern for deflation.

Nambara: What we have now is a world financial non-system where hot money and speculators can ruin nations. I was particularly disappointed at Clause 13 in the G-7 communiqué you showed me, on the refusal to regulate the hedge funds and other Highly Leveraged Institutions. Why is only *EIR* reporting that this was caused by the U.S. and U.K.? The real story's been blacked out of the Japanese press.

Regarding deflation, during the 1997-99 crisis, up till the LTCM [Long Term Capital Management] rescue in New York by the Fed [U.S. Federal Reserve], I was terribly worried about a global deflationary collapse, because the "Washington Consensus" being imposed on the world was nothing but "original capitalism," as in the neo-classical Chicago School. The IMF [International Monetary Fund], [former Treasury Secretary Robert] Rubin, [Federal Reserve Board Chairman Alan] Greenspan, and so on, simply tried to apply pure Chicago capitalism, forcing banks and firms to close, bank deposits to be deregulated, everything opened up to be sold or shut. Even Adam Smith, in *The Wealth of Nations,* was opposed to deregulation of banking deposits. But, I'm less worried now that global deflation will be imposed, after the LTCM rescue, because they had to admit it was wrong and change their methods

EIR: You mean after they had to bail themselves out with LTCM, they couldn't afford to preach the Chicago starvation diet to others?

Nambara: Yes. But as far as Japan is concerned, we still have a huge risk of deflation due to our large debt hangover.

Yet, the foolish Japanese mass media still think that Chicago capitalism is correct, and that's why they trashed the Sogo bailout plan this summer—and what's the result? Now the Japanese government has to spend more taxpayers' money on the Sogo disaster than it would have spent before.

In fact, Japan shouldn't have let the Long Term Credit Bank or Nippon Credit Bank go under in 1998; we should have pumped in Bank of Japan money, that was easy enough. But before the LTCM crisis on Wall Street, Rubin was pushing Japan to let Yamaichi Securities, and Long Term Credit Bank, and other banks, go. The credit crunch actually started when the Japanese government forced the Yamaichi brokerage and Hokkaido Takushoku Bank to close—all based on this Washington Consensus. Of course, I can't blame the U.S.; as a Japanese, I have to blame then-Prime Minister [Ryutaro] Hashimoto for bowing to the great pressure by the Washington Consensus.

Also, there was an Asia-wide credit crunch, which damaged the plus-sum "virtuous circle" of income between Japan and East Asia, which was totally destroyed.

In 1965, Yamaichi also had a problem, and the BOJ made the owner resign, but saved the company, in order to save the life savings of the clients—and it's my belief that if Yamaichi had been allowed to go under, Japan would have gone over to the Soviet bloc. Japan's situation in 1965 was similar to that of Indonesia today, so a closing of Yamaichi at that time would have ruined the lives of too many people, caused a terrible credit crunch, and probably a socialist revolution.

Then-Finance Minister Tanaka Kakuei did an excellent job of stopping this.

After the Wall Street LTCM bailout, Mr. [Prime Minister Keizo] Obuchi was able to change fiscal policy from austerity to disbursement, and worked with [Finance Minister Kiichi] Miyazawa to pump in money and recapitalize the banks. But we are still in a terribly fragile situation, as shown by the Sogo collapse, which we could have prevented, but now we have terrible danger of deflation.

EIR: What do you think of the recent rate hike by the Bank of Japan, which ended the zero-interest rate policy?

Nambara: Japan is caught in the bad paradox that the zero rate of interest for borrowing was definitely abnormal—but also, that Japan has been facing, and is still today facing a frightening deflation. The small rate hike by 0.25% was correct, but it does not change this threat.

The problem started with [Bank of Japan chief] Mr. Hayami's original statement years back, when he first lowered the BOJ lending rate to zero, that he would continue with the zero rate "until the fear of deflation is wiped out," which would actually take some time. He should instead have planned to get away from the zero rate as soon as possible, because a central bank cannot just give money away; it puts too much cash in the financial markets.

But it does not really help get the banks to loan money to Japan's real economy. After the Nikkei stock index got above the crisis level of 15,000 in April last year, Mr. Hayami should have already normalized the BOJ overnight call rate to 0.125 or 0.25 at the time. But he could not ignore the demands by some foreign politicians to keep the rate low.

Yet, the danger of a deflation shock is still here, because Japan's companies still have major non-performing assets on their balance sheets, and this balance-sheet problem cannot be solved until after we witness a longer period of sustainable growth of the real economy.

In fact, in my several conversations with other members of the BOJ board, I was just now relieved to confirm that the majority of the BOJ board understands this threat. So, I am praying that the rate hike to 0.25 is just the normalization we needed awhile back, and that the BOJ will otherwise continue efforts to get loans moving to the industrial sector.

EIR: In his recent paper "Trade Without Currency," Lyndon LaRouche again warns of a pending global financial crash, and he says that the only way out is to totally reorganize what he says is $400 trillion in bad assets, such as non-performing bank loans (NPLs) and derivatives worldwide. Unless this is done in a top-down way, soon, he says, all currencies, because of this debt weight making them worthless, will soon cease to function. So, nations, to keep production and trade moving, as an interim emergency step, will have to set up a new unit of account based on a basket of commodities.

First, what about LaRouche's idea that the whole $400 trillion in bad debt, especially derivatives, requires a general reorgainzation?

Nambara: I share that view; it all has to be reorganized. I actually do believe they had to bail out LTCM in New York, that's also why Greenspan had to lower the discount rate three times in succession. Otherwise, it would have triggered a global collapse worse than 1929-32.

But these stock bubbles are very worrisome. This cyber economy is just a bubble economy, it's not a transaction of goods and services, it is just money, paper money. I was hopeful that since Tiger Management had to close, and [global speculator George] Soros has been losing his power, the speculators are losing power—but now look at this G-7 communiqué, that is quite disappointing.

EIR: The Korean government regulator KAMCO estimates that Korean banks have $250 billion in NPLs, i.e., bad debts, Japanese banks have $1 trillion, China $500 billion, Russia over $500 billion; they are publicly estimating bank NPLs worldwide at $4 trillion. They are calling a conference on this in Seoul this fall to address it globally, too.

Frankly, we think the U.S. banks, despite cover-up, are in just as bad a shape. Most worrisome are the $50 trillion in bad derivatives gamblings at the New York banks, and another $90 trillion at the European banks. You've seen all the Bank for International Settlements derivatives numbers.

Nambara: I agree with your analysis. Japan probably does have $1 trillion in NPLs, maybe the U.S. banks do have more than they claim, we don't know, of course, maybe you are absolutely right about that—you remember Citibank had such giant non-performing loans that the Fed had to bail them out in the 1990s.

Japan has this huge NPL problem because we suddenly nosedived our economy, as I described earlier, because of the power of Wall Street, otherwise known as the "Washington Consensus."

But in the end, the only way is to have large growth of the physical economy; economic growth is the only way, in the end, to solve the balance-sheet problem.

EIR: LaRouche is saying that you can't bail it out; and as you say, it will be very damaging if it just crashes. LaRouche is proposing a third alternative: We put the whole $400 trillion through a bankruptcy reorganization, planned and implemented from the top, something like when President Franklin Roosevelt had his bank holiday and reorganized the U.S. banking system after the Great Crash.

Nambara: Well, I don't know if that's possible to do, it sounds a bit too revolutionary for me. The U.S. will never support that idea—but on the other hand, I was shocked when you showed me the G-7 statement refusing to regulate the derivatives and hedge funds. So, I really appreciate what Mr. LaRouche is saying about this, and I share the basic philosophy. The only thing is, I hope it could be done more gradually.

Don't you think the IT [information technology] revolution is causing real productivity growth in the U.S., enough so that we might get by?

EIR: No, it's a media fiction. LaRouche says that all currencies will soon be worthless, because they have this giant debt attached to them which the real wealth is not being created to pay. He says that if there is not such a top-down reorganization, the system will shortly become dysfunctional, and currencies will be fluctuating so widely that no one will be able to denominate trade or production credits in any of these currencies.

What about his idea, setting up a new unit of account based on a basket of commodities, i.e., "Trade Without Currency"?

Nambara: I have been theoretically calling for some kind of global common currency for some time, to try to prevent these wild currency fluctuations we've had since 1971—and escalating wider and wider in the 1990s—which are so damaging to trade, and Japan lives on trade. However, when I was at Yale, I always thought Robert Triffin's, or [John Maynard] Keynes's idea before him, for a global central bank, was too much, because countries have to have their national sovereignty. So, I've tried to figure out a system, in the best of all worlds, to have currency stability but not give up national sovereignty, and that's the difficulty.

But this would stop the speculators. So, for example, I was glad in that sense to see the realization of the euro, actually, because, within Europe, the bank-to-bank transactions are denominated in euros, there is no way for speculators to speculate.

But, we have to try to do something. It's insane to have such fluctuations in exchange rates, which create totally abnormal profits for speculators, and hurt people trading in real goods. So, as a first step, we should try to have some sort of target zones for currencies.

EIR: But if all currency values are destroyed—

Nambara: I agree with LaRouche that the currencies could all be ruined in a major crisis, and we could face a major deflation, and I also agree that, technically, in any major crisis, a basket of currencies certainly would not work. I just don't see it happening right away.

But then, I also had thought the IMF would change with the new German management and become more reasonable, and then the AMF [Asian Monetary Fund] could work with the IMF; that would be fine. But after that, I was so shocked to see the G-7 communiqué still refusing to do the most important thing: regulate speculation. So, who knows?

EIR: The LaRouche proposal is for a basket of commodities, not of currencies, and for a new unit based on that commodities basket. Its primary aim would be to keep factories producing and real commodity trade moving.

Nambara: I agree with LaRouche, under one condition: Before we materialize such a unit in carrying on trade, we need to set up a careful set of free and fair trade agreements so that it is done fairly. It would be very good if we had such a common unit of account, because that way there is no way for speculators to speculate in the currencies.

But we can't do it if the U.S., for example, has something like NAFTA [the North American Free Trade Agreement], from which Japan is excluded.

But, unfortunately, it is hard to get these kinds of trading agreements, because politically, people want to protect their agriculture, and so on, from other countries' imports.

EIR: Suppose we have such a general world crisis but the United States would not cooperate with such a global system. Would the Association of Southeast Asian Nations plus Japan, South Korea, and China ("ASEAN-Plus-3"), with its primary goal being to keep factories and shipping moving, have the courage to set up their own trading system using this LaRouche-proposed basket of commodities and new accounting unit?

Nambara: Look, the U.S. is the world's biggest debtor, so I agree with LaRouche that it is easy to imagine a situation in which global confidence in the U.S. dollar is eroded; once that starts, the dollar could collapse very quickly—and then there would be a chance that the U.S. would agree to my proposals for a common global currency and free-trading agreement.

But I'm very appreciative of the efforts of Mr. LaRouche and you to change how Americans think about all this.

EIR: If in the end the United States would not cooperate, would ASEAN-Plus-3 go ahead?

Nambara: Without the cooperation of the U.S. it might be too difficult. While the U.S. is the world's largest debtor, still the U.S. is the number-one country upon which East Asian countries depend to sell our exports. That's our big problem—all the Asian countries depend so much on exports to the U.S. We could not just quickly swallow that loss. The capacity of imports from Japan, for example, on the scale of the U.S., can't be so quickly replaced with new markets in China or Southeast Asia—although I was very happy to read this week that JETRO [the Japan External Trade Organization] has announced that trade between China and Japan is now at a record high, both exports and imports. We would like to go more in that direction as quickly as possible.

So, the best way is to elect Mr. LaRouche, or his co-thinker or next-in-command, as President of the United States, to change the philosophy of the U.S. This would improve the quality of leadership of the U.S., and that would greatly improve the world economy!

The Hoax of U.S. 'Core Inflation'

by William Engdahl

On Aug. 15, the price of the benchmark North Sea Brent crude oil surged to $32.80 per barrel, its highest level since November 1990. This represented a rise of 20% in two weeks. Oil analysts at leading Wall Street firms, including Merrill Lynch and Goldman Sachs, predict a $40 per barrel price within weeks unless something dramatic happens. That would represent a 400% price rise since March 1999—on the same order as the 1973-74 oil price shock which plunged the world into depression.

Yet, U.S. financial markets are reacting to the latest oil shock as if it didn't exist.

From the European standpoint, Americans must seem remarkable: They apparently don't use energy to fuel their cars or planes; nor, apparently, do they eat food. How else could the U.S. Federal Reserve claim, month after month, in the face of soaring commodity prices—including a 300% rise in crude oil, the energy feedstock of the entire U.S. economy—that something the Fed defines as "core inflation" remains "under control." And this while European governments are reporting rates of inflation heading toward 10% annualized.

The claim that, despite exploding costs of most major industrial commodities in recent months, inflation is no problem (hence the Federal Reserve need not raise interest rates further), is a distortion of economic reality, laughable in its dimension. However, it blinds much of the world, Wall Street stock speculators not least among them, to the precarious state of an economy in double-digit inflation, and soon to be in what Lyndon LaRouche characterizes as a 1922-23 Weimar-style hyperinflation.

'Core Inflation' Is Born

The U.S. Federal Reserve, official calculator of the monthly Consumer Price Index (CPI), releases a measure that it calls "core inflation." This is defined as consumer price inflation, minus inflation in energy and food. The current core inflation level is 2.3%, hardly grounds for panic.

Core inflation for the past year and half, when oil prices were shooting through the roof, has remained mild, according to Federal Reserve statisticians. The source of this miraculous statistical event has its origins back in 1973-74, during the Nixon Presidency. Then, as now, it was a huge spike in oil prices (the "Great Oil Hoax" that Henry Kissinger blamed on the Organization of Petroleum Exporting Countries embargo) which was at the heart of dramatically rising prices paid by ordinary American consumers.