Will Mori Outlast G.W. Bush? Japan Holds Financial Cards

by Kathy Wolfe

As Japanese Prime Minister Yoshiro Mori headed to Washington on March 19, rebuffing media speculation that he will resign, Asian diplomatic sources told *EIR* that President George W. Bush has refused the usual joint press conference with Mori, just as he refused to face the press with South Korean President Kim Dae-jung on March 7. "Mr. Bush seems to be afraid to take questions on international affairs," one diplomat said, "not to mention discussing international financial markets in public."

While global media shout that Japan's giant banking system is about to sink into the Pacific, one scared Bush official let a deeper truth out. The real problem is the "scary dynamic" between the United States and Japan, he told the *New York Times* on March 13. As the Great Wall Street Bubble crashes, the U.S. consumer loan import bubble based upon Wall Street is collapsing too, making a major dent in Japan's exports, as *EIR*'s Jan. 19 issue documented. "The downturn here feeds the pessimism in Japan," he admitted, "and the faster Japan drops, the more it undermines confidence here" in the United States.

"The nation's finances are now abnormal, in a state quite close to collapse," Japanese Finance Minister Kiichi Miyazawa openly told the Tokyo Diet (parliament) on March 8, referring to projections Japan's national debt will reach some \$5.6 billion by March 2002. "We have to create a healthy economy, instead of just trying to sound positive with words." This triggered a drop in the yen, as traders speculated that he sought to talk the yen down, in order to gun exports. The drop was so sharp that Miyazawa withdrew his statement the next day. But on March 13, as Tokyo's Nikkei stock index fell to 11,819, a 16-year low and a drop of 7% in four days, Miyazawa again called for action rather than mere recovery talk. Japan's economy in fact "is showing trends of deflation," he warned, referring to a 1929-style paper asset collapse.

Miyazawa at least has spoken out about reality. The dollar-based global financial system, erected on the diktats of Wall Street, the City of London, and the International Monetary Fund (IMF), is evaporating, but the Bush camp has no idea what to do. Instead, the White House has been insulting Tokyo non-stop, as if Japan were to blame. "Meeting him is a waste of time," a Bush official told the *New York Times* on March 14, referring to Mori. Tokyo sources say that the Bush circle has been a key source of repeat rumors that Mori and his government will resign. The rational U.S. policy, in a global financial crisis, would be to have the best possible relations with Japan and help stabilize its government.

Wall Street's Bottomless Pit

Japanese banks, industries, and investors, terrified of the dive on Wall Street and in Tokyo alike, have begun calling in cash from around the world, to build up their books before the March 31 end of Japan's fiscal year. This is causing a credit squeeze on global markets, which have been heavily dependent on cheap loans from Japan for several years. Now Wall Street's sins have come back to haunt it.

For the last decade, under continuous jawboning from Washington, the Bank of Japan and Japanese Ministry of Finance have been pushed into printing enormous amounts of yen and loaning them out for free, the so-called "zero interest rate" policy. The excuse is that cheap yen should help restart Japan's economy, but the reality is that most of the cash has been taken up by global investors and put into the Wall Street stock bubble and other speculative globalized ventures. This so-called "yen carry trade" thus goes to pay for the enormous U.S. current account deficit. Minister Miyazawa and other high-level Finance Ministry officials have often criticized this situation in which the United States is borrowing more than $1.5 billion a day in "welfare" from the rest of the world, to pay for America's nearly $500 billion annual foreign deficit, throwing money into a bottomless pit.

Japan's government, meanwhile, has been borrowing to raise cash for public works and other projects, attempting to make up for all the money leaving the country and to somehow get the economy started. This has exploded the national debt crisis. That crisis is compounded by Anglo-American rating agencies such as Moody's and Standard & Poors, who regularly issue downgrades of Japanese bonds, which is profitable to global speculators who can then make money on their previous "short sales," i.e., casino-like bets that the Tokyo bond market, stocks, and yen will fall.

Miyazawa's unprecedented public remarks about the crisis in Japanese government finance was a warning to Washington that Japan "can't continue to bail out Wall Street and the U.S. current accounts deficit," a Japanese financial source told *EIR*. "The Bank of Japan [BOJ] has been right to complain about the 'zero rate.' No matter how much money they print, at whatever interest rate, Japanese banks are so full of bad debt, that they can't make substantial new loans. Thus, all the money they print just goes to finance Wall Street and the U.S. current account deficit. Minister Miyazawa's 'collapse' statement was not an uncontrolled outburst; it was a warning that this can not continue."

Is Japan Waking Up?

Japan's elites are now faced with a cold, hard choice: continue to bail out Wall Street, or save their own nation. A report that Japan's top 19 banks are not creditworthy, issued on March 14 by London's International Bank Credit Analyst (IBCA), caused panic in Tokyo over March 14-15. Bank shares went into a free-fall which drove the Nikkei down. One of the world's biggest lenders, Daiwa Bank, was forced to hold a press conference on March 15 to deny rumors in New York and London that it was about to fold. The speculation was "groundless" and "lacks basis in fact," Financial Services Minister Hakuo Yanagisawa said.

To stop the madness, Tokyo leaders must finally tackle the enormous real problems of the Japanese banks, which have written off 68 trillion yen ($585 billion) of bad debts since 1992. According to the latest official Japanese government figures, they still carry at least 32 trillion yen ($266 billion) in bad loans, but *EIR* and most private analysts estimate the real number to be more like $1.5 trillion. "There is 27 trillion yen of capital in the Japanese banking system," said one Tokyo analyst, "and whether bad loans are 30, 70, or 90 trillion, it's greater than all their capital."

The stock crash hits this, because Japan's top banks hold stock as part of their capital. The top 16 banks owned Y37 trillion in stocks as of the end of September, but their worth has fallen drastically. Any further free fall in the stock market threatens the banks' existence.

Japan is not alone in this, despite the global media's fixation on Tokyo. New figures released in early March by the U.S. Comptroller of the Currency, analyzed by *EIR,* show derivatives concentrations at unprecedented levels in the U.S. banking sector, due to recent mergers. Three commercial bank holding companies account for 91% of the admitted derivatives bets held by all U.S. parties, as of the end of 2000: J.P. Morgan Chase & Co. ($24.5 trillion), Citigroup ($7.9 trillion), and Bank of America ($7.7 trillion). Any moment, any one of them could blow out as the Long Term Capital Management (LTCM) fund did in 1998, and bring the United States its knees.

Prime Minister Mori convened an emergency meeting on March 15 of senior officials to restart the economy, focussed on the bank and stock market crisis. "The economy is entering a critical phase," he said, and this is the reason why he cannot resign. "I am determined to take firm action in implementing emergency economic measures. Resignation is not on my mind."

Only One Solution Will Work

Whichever country moves to reorganize its banks first, will have an enormous strategic advantage, and because the United States depends on Japan for global financing, Tokyo holds the better cards. As the Bush Administration falls apart under the pressure of the crisis, Japan could be in a position to create a new and more equitable world monetary system—if it cleans up its banks. So far, however, only two equally bad alternatives have been discussed. The first way, to "wait and see," is no longer acceptable.

The U.S. and British delegations demanded a second way at the February Group of Seven finance minister meeting in Palermo: dump all bad loans immediately, and let the free market "rip." This would not only bankrupt major Tokyo banks, but more importantly cause their borrowers, Japan's industrial giants, to close their doors, crippling production and creating mass unemployment. It's the same "shock therapy" program now under debate in Korea, where the IMF is demanding closure of Daewoo, Hyundai, and other industrial producers.

Under this brutal plan, "Japan, too, would have to sell its banks and companies to foreigners," former Bank of Japan Executive Director Akira Nambara told *EIR* on March 15, "something very profitable for the international investors." "Considering the potential impact, it is unthinkable the government will let banks collapse and have them taken over by foreign institutions," Hiroshi Okuda, president of the Japan Federation of Employers Associations (Nikkeiren), and chairman of Toyota Motors, told the press on March 16.

Finance Ministry sources report a battle behind the scenes, in which Miyazawa and his allies want to create a "Third Way" solution for bad loans—pick them up, reorganize, and write them off, but in a rational manner. Miyazawa told the emergency task force meeting about plans to create a new fund or agency, jointly owned by the government, the banks, and private companies, to purchase industrial stocks held by banks which might otherwise be dumped and cause the market to spiral. This fund could also purchase "bad" or non-paying loans which banks have made to the productive sector, and hold the stocks and loans for five years. By selling them, the banks would receive fresh capital to lend to the industrial economy.

Undecided is, what happens next to the "bad" stocks and loans. This "useful debt" can be capitalized in a government development bank, modeled on the postwar Japan Development Bank.

Interview: Dr. Akira Nambara

'Wake Up and Get A Sense of Crisis!'

Dr. Akira Nambara is the former Executive Director of the Bank of Japan and former Deputy Director of the Japan Export-Import Bank, and is known for his outspoken views. He was interviewed by Kathy Wolfe on March 14.

EIR: What is your view of Finance Minister Kiichi Miyazawa's striking comment that Japan's finances are close to collapse?

Dr. Nambara: I have not been able to ask him why he suddenly used words such as "collapse" and "catastrophe," because he's been far too busy with this mess, so I can't say in detail. However, although he later retracted the statement, it is a fact that the Japanese economy as a whole will be on the brink of collapse unless Japan's Liberal Democratic Party [LDP] dramatically changes and takes some leadership, and stops focussing only on media and public opinion. Probably, Mr. Miyazawa was trying to warn not only his fellow politicians, including the opposition parties, but also the mass media, to wake up and get a proper sense of reality and crisis. I presume he is absolutely disgusted, like me, about the corruption inside the LDP. He should also have said that the LDP is on the brink of collapse.

Miyazawa is an unusual Japanese politician; you might say he's a swan amongst ugly ducks. As far back as 1987, in the Louvre Accord among the Group of Seven industrial nations to stabilize their currencies, it was his initiative to stabilize the monetary system using currency bands, just like the European Monetary System, which was heavily attacked by Milton Friedman and the Chicago free-trade school. But unfortunately, just as with the EMS in 1992, in the recession after the Gulf War, the markets were too chaotic, the exchange rate band was too narrow, and it didn't work. So, Mr. Miyazawa proposed a number of budgets in 1993, which stimulated trade. Without those actions, I don't think our economy could have recovered, or that the East Asian economy could have developed since that time.

In 1992, as Prime Minister, he also proposed a plan to wipe the non-performing loans [NPLs] off the balance sheets of Japan's banks while the stock market was relatively much higher. In hindsight, now everyone admits that if his policy had been followed, we could have avoided today's disaster, but, at that time, almost everybody was opposed to his idea; he could not get a consensus. He wanted to put a small amount of government funds to expand the capital of the Long-Term Credit Bank [LTCB], which was Japan's basic bank for the national infrastructure, to build more infrastructure, but the idea was rejected by the mass media as a bailout. The LDP was the problem: too interested in media and public opinion, not enough interested in doing the right thing for the country.

EIR: The Japanese mass media, as in the U.S. and in South Korea, too, are notoriously controlled by Wall Street.

Dr. Nambara: Indeed you are right. So, although Miyazawa is one of the least corrupt Japan politicians, even though he was Prime Minister, he could not get what he wanted. Then, instead of being solved, the NPL problem just got worse and worse.

Later, when Mr. [Keizo] Obuchi came to office as Prime Minister during the Asia crisis, Miyazawa felt he was getting on in years and didn't want to be in government any more—but he gave in to Obuchi's plea to continue as Finance Minister, out of a sense of duty to the country and the region in the crisis. Thanks to the support of Mr. Obuchi, he was able to implement his Miyazawa Plan, which I really think saved the entire East Asian region.

EIR: The Miyazawa Plan was about $30 billion in trade-related credits to Asia?

Dr. Nambara: Yes, it was implemented after the U.S. Treasury rejected Japan's original idea of an Asian Monetary Fund in 1997.

EIR: It's been said that if we combine the Japan Export-Import Bank credits and other government Miyazawa Plan funds, with Japan's private bank loans and corporate investment to the rest of Asia related to the Miyazawa Plan, Japan loaned and invested over $400 billion to its Asian partners during 1997 to 1999.

Dr. Nambara: Yes, maybe more. It was this, which somewhat alleviated the worst of the crisis.

EIR: Not anything the International Monetary Fund [IMF] did?