

Japan Elites See 'New 1971' Dollar Crisis

by Kathy Wolfe

Is Asia starting to reject the "Wall Street Model" of deregulation? Is it Japan's economy which is about to blow up the global financial system, as Moody's Investors' Service claims? Or isn't it rather the dollar which is about to blow up, due to "junk bond economics" not just at Enron, but across the whole U.S. corporate sector, the trade deficit, and the Federal budget deficit? These are the questions that *EIR* examined in its June 7 ("Asia Debates End of Deregulation") and June 14 ("Moody's Attack Last Straw for Japan?") issues.

The answers are yes, no, and yes. Once again Lyndon LaRouche and *EIR* had the story first. Now, leaders in Asia have begun to speak in public about the demise of the dollar, of the "Wall Street bubble," and of the U.S.-British model of "free-market" deregulation.

Bank of Japan (BOJ) Governor Masaru Hayami made a shocking public warning of a coming 1971-style U.S. dollar crisis (referring to President Richard Nixon's decoupling of the sinking dollar from gold, on Aug. 15 1971, ending the post-war Bretton Woods monetary system). "The possibility of a worldwide move to dump the greenback is fairly high," he told a televised meeting of Japan's Diet (Parliament) on July 11. "A deterioration in U.S. fiscal conditions could lead to a weaker dollar," which "could prompt investors outside the United States to withdraw assets from the country." The recent steep decline of the dollar, Hayami said, "resembles the situation in 1960-1970, when the U.S. government was suffering from twin deficits," referring to the combined domestic budget deficits and swelling foreign trade deficit which triggered Nixon's action in 1971. "The U.S. will probably fall into a twin-deficit status again this year," Hayami said.

As the dollar slipped below 115 yen in Tokyo on July 17 (a 15% drop since January), Hayami repeated his view. Asked by reporters if Japan should support the dollar, he called it pointless: "The dollar is being sold. That's a fact. It can't be helped for a while."

"Dollar Heads South as U.S. Bubble Bursts" was the way the *Japan Times* put it in its July 16 headline, comparing the "bubble implosion in the U.S. information technology sector" to the collapse of the giant Japanese real estate bubble in 1990. It projected a decade or more depression in the United States, and no bottom for the dollar, as the Fed prints dollars madly in response.

Moody's Is 'Most Ridiculous'

The failed cabinet of Prime Minister Junichiro Koizumi is denying this reality, and Hayami, sources say, is of those Tokyo elites who want an open debate on the true extent of the global crisis. "The yen is too high," Chief Cabinet Secretary Yasuo Fukuda said on July 17, urging the U.S. Federal Reserve and European Central Bank to make joint currency-market interventions with Japan to support the dollar. "The dollar is too low, since the U.S. economy remains strong," Finance Minister Masajuro Shiokawa said the same day. But when a skeptical TV anchor asked, "What if the dollar goes into free fall below 100 yen?" Shiokawa's state of denial became more entrenched. "That will never happen!" he fumed. "It's because all of you keep fanning the flames that people get worried!"

But the Hayami group thinks the dollar and U.S. economy are so far gone that intervention is "futile," a source said. The BOJ has not intervened since June 28.

"Of all the Western analysts who said the American 'New Economy' could go on forever, borrowing \$1.5 billion a day from the rest of the world, and that countries such as Japan which did not adopt the 'Wall Street business model' would collapse, the most ridiculous is Moody's," a Tokyo official laughed on July 17. "In January, the American Enterprise Institute said the yen would collapse, triggering Japanese citizens to run our banking system. Then on May 31, Moody's downgraded Japan Government Bonds (JGB) almost to junk-bond status, below many Third World nations such as Botswana, again predicting major capital flight out of Japan. . . .

"However, who looks ridiculous now?" he asked. Japan's May foreign current-account surplus more than doubled from a year earlier, and in fiscal 2003 (ending in March 2003) "it could be the largest on record," nearing \$150 billion—while U.S. deficits deepen. So now, "foreign investors all over the world are eager to invest in Japanese Government Bonds," since the strong yen is raising the value of Japanese holdings in dollar terms. In fact, JGBs are higher than ever this year. Now, both Japanese investors and foreign investors are shifting funds from U.S. stocks and bonds to JGBs, and the long-term rates over the next ten years for JGBs are falling, rather than rising, as Moody's predicted. Net assets held overseas by the Japanese government, companies, and individuals combined, had soared 35% in 2001 to a record \$1.5 trillion, the official said, but now, a lot of that money is dumping the dollar and buying Japan Government Bonds.

'U.S.-British Model' Blasted

There have also been more broadsides against Anglo-American deregulation and "free-trade fundamentalism," as forecast in *EIR* June 7. "Don't Take Free-Market Propaganda Seriously," writes Richard Werner, the influential German-American economist of the Tokyo-based Profit Research

Center, in the July 16 *Yomiuri News*. Werner denounces the London *Financial Times*, U.S. economists such as Paul Samuelson and Larry Summers, and the International Monetary Fund (IMF) and World Bank, for their constant refrain, that “what is needed is ‘privatization, deregulation, and liberalization’ . . . The point is made in the media virtually every single day. Just last week we were reminded by the uncle of former U.S. Treasury Secretary Larry Summers, Paul Samuelson, that ‘free markets are the key to prosperity.’ Samuelson’s diagnosis: A recovery is only possible in Japan ‘by turning away from the old Japanese model.’ ”

Meanwhile, he notes caustically, the IMF and World Bank are infamous for visiting every nation on Earth, where “they quickly know and announce the true problems of each and every one of these countries. Little local research is necessary. As friends have told me, the main intellectual contribution, when they are sent to a new country, is to switch the country name from an earlier country study. The advice is predictable: liberalization, deregulation, and privatization.” Everywhere the advice is followed, it results in economic depression.

“The fact is, there is no evidence whatsoever that current Japanese and German weak economic performance is due to their economic structure,” Werner states. He repeats the cogent arguments of the editorial in *Nihon Keizai News* on May 7 (reported in *EIR* on June 7), that it was actually the “Big Bang” bank deregulation of 1995, carried out by Prime Minister Ryutaro Hashimoto at the behest of London and Wall Street, which destroyed Japan. Big Bang was “immediately followed by the largest post-war contraction of nominal gross domestic product and consumer prices” ever seen in Japan, he states. “Available evidence concerning the impact of structural reform on economic growth does not point toward a positive relationship.

“When Japan’s economic structure was far more regulated and still closely resembled the controlled economy of the wartime era, it produced mostly double-digit growth in the 1950s and 1960s. As deregulation increased, growth dropped steadily, culminating in negative growth in the era of remarkable deregulation of the 1990s. . . . Economic structures that do not conform to the U.S.-British model can be highly successful, and even surpass the U.S.-British model,” Werner concludes.

Asian Basket or New Bretton Woods

Leaders across Asia are reacting by turning from the dying U.S. market to expanding regional ties, as Lyndon LaRouche has long advised. “The economic instability in the United States is a reality,” South Korean Commerce, Industry, and Energy Minister Shin Kook-hwan said on July 16. Seoul has specific plans for shifting away from dependence on the collapsing U.S. market and into expanding exports towards Asia.

Japan’s Ministry of Economy and Trade (METI, the former MITI) produced a White Paper on International Trade on

June 25, emphasizing that Japan cannot escape its current depression without expanding cooperation with East Asian neighbors to revitalize the Japanese economy. Seeing East Asia as “the engine for global economic growth,” the report says, “Japan can benefit from its geographical location and advanced economic development to deepen ties with these rising economic powers.” In a significant dig at the U.S.-British model, the paper states: “While the country has long supported a multinational free-trade system based on the World Trade Organization, Japan needs to adopt more flexible strategies for regional alliances.”

An official of the Bank of Japan, in a rare statement on non-monetary issues, said on July 15, that “amid increasing uncertainty in the U.S. economic outlook, we are shifting our eye to Asian economies.” Nikkei reported this under the headline “BOJ Officials Eye Asia for Economic Recovery Hopes.” The BOJ official was quoted saying, “If the U.S. economy falters, the only hope left will be Asia.”

No system, in which Asia tries to go it alone, can work, however. Asian leaders must also address the need to create an entirely new, global financial system, as in LaRouche’s proposal for a New Bretton Woods conference, to replace the crashing dollar non-system. There is no point in being self-satisfied that the yen and Asian currencies are “doing better than the dollar,” when all paper currencies based on the current system could collapse at any moment, as LaRouche pointed out his groundbreaking study, “On a Basket of Hard Commodities: Trade Without Currency” (see *EIR*, Aug. 4, 2000).

In this respect, Japan’s proposal to Asia Finance Ministers, at the July 6 Copenhagen Asia Europe Meeting (ASEM), for the formation of an Asian regional finance system, was a step forward, but far from adequate. The proposal, co-authored by Korean experts, calls for a single Asian currency; an Asian central bank; and monetary union after 2030. It also proposed creation of an independent fund, which amounts to an Asian Monetary Fund, but Tokyo is afraid to officially promote it by name.

Thus failing the courage to assert responsibility for the entire global system, Asian nations are susceptible to being sold “respectable alternatives” to the IMF, which will end up dispensing the same kind of economic poison. Japan’s Copenhagen draft draws heavily on the Kobe Research Project written by the Japanese and French Finance Ministries; this project was based on the Maastricht Treaty which founded the European Monetary Union. The Maastricht model imposes supranational austerity upon nations in the name of “currency coordination,” a form of “IMF-ing yourself.” Rather than demand a totally new global system, it proposes again that Asian nations delink from the dollar in favor of a “currency basket system of the dollar, yen, and euro.” As LaRouche demonstrated in “Trade Without Currency,” this is pointless, when all the paper in the basket is not backed by economic reality.