

Steagall, as has already been discussed; to establish Hamiltonian banking systems to channel productive credit for productive activity of the sort we've been discussing in the case of the world health system; to establish global infrastructure projects where countries can cooperate for rapidly increasing the productive powers of labor, such as the Belt and Road Initiative and, LaRouche says, focus on those areas of scientific advance, of technological breakthroughs, which are, in the final analysis, the motor force that drives real economic development forward through nonlinear leaps of the sort that we have discussed previously.

I want to show you a very short video clip from a town hall meeting in New Hampshire in 1980 during the presidential campaign. You will see here that LaRouche draws a very fine distinction between productive labor and unproductive labor. I believe this is probably the first place where Lyndon LaRouche ever presented the precursor to what later became Lyndon LaRouche's famous Four Laws.

**Lyndon LaRouche** [video]: I'm going to do what Roosevelt promised to do in 1940-42. What Franklin Delano Roosevelt, of all people, promised to do; I'm going to do it! [Aside:] Somebody in the audience said

"End prohibition!" No! Put the drug interests in jail among other things. No! Roosevelt promised to Churchill at the Atlantic meeting and the Casablanca meeting, he said, "No more will the United States fight world wars to save the British Empire in any shape or guise!" [applause]

No more will the United States tolerate the British system, whether colonial or neo-colonial! No more will the United States tolerate the economics of Adam Smith in any part of the world! We are going to take this aching, poor, hungry world and we're going to transform it with American methods; we're going to transform it by export and development of high technology! We're going to have Manhattan Projects and NASA projects and every dirigist, Federally-directed, scientific crash program that we deem necessary!

You know, some people talk about "How many nuclear plants can you build?" [laughter] They don't understand American methods. If I want to build 10,000 nuclear plants by the year 2000, we'll do it! It can be done. If we putter along the way we like to do it, it won't happen. You want to have 50 or 100 nuclear starts a year? We can do it! Just take the table of requirements: we need how many steel plants, how many of this?—Build them all! Right now!—if we have to melt down the neon signs on the whore houses to do it! [applause, laughter]

Daisuke Kotegawa

## Valuable Lessons on the Financial Crisis From Experiences in Japan

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believed in the so-called "global standard," and accused Japan of accumulating non-performing loans based upon the Basel Rule agreed to in 1988 by members of the BIS (Bank for International Settlements). That same group of economists at the IMF attacked Asian countries, such as Indonesia and Thailand, at the time of the Asian economic crisis in 1998. The backgrounds of these economists were really undiversified; almost all of them were male and holders of Ph.D. degrees from prominent British or American universities.

A British expert in "Japanology" joined Goldman Sachs and made up a groundless "estimate" of the

### Background

I was in charge of the financial crisis in Japan in 1997. In those days, Japan was the target of critics who

amount of non-performing loans in Japan. He and Goldman Sachs made a fortune in dealing with the non-performing loans business in Japan. Major securities houses in Japan, such as Yamaichi and Sanyo, went bankrupt, and large banks including Long-Term Credit Bank of Japan (LTCB) and Nippon Credit Bank had to be nationalized. Engulfed by attacks by critics from the United States, the United Kingdom, and their followers in Japan, the Financial Services Agency of Japan executed very tough examinations of bank assets across the board in accordance with the Basel Rule established in 1988 and announced its result to the public in 1998.

Based upon the publicly announced results of the examination of bank assets, the Japanese government injected public money to stop major banks from collapsing. Bank lending policies were tightened up to a level never seen in Japanese history, and many Japanese companies went bankrupt. With this backdrop, a considerable number of people committed suicide, including members of my former staff in the Ministry of Finance. Board members of failed financial institutions were arrested for alleged window-dressing.

For the next ten years, Western countries made fun of the Japanese economy as the “lost decade” or “lost two decades.” In Southeast Asian countries, such as Thailand and Indonesia, which suffered from the Asian economic crisis, and had to accept the IMF conditionalities, some number of ministers were put in jail.

Now, it is important to touch on the history of the Basel Rule enactment which caused such financial crises in Japan.

Since 1980, global financial markets had expanded dramatically, but on the other hand, issues such as accumulated debts and increasing derivatives transactions have become major concerns.

In addition, the United States and Europe, which wanted to invest in Japan in the 1980s, enjoying prosperity only among developed economies, asked Japan to open up its financial markets. The U.S. financial institutions had lent large amounts to Latin American countries at high interest rates in the 1980s, which were going bad, and many Wall Street financial institutions were in deep crisis, including Citibank.

In those days, Japan sought to become the second largest shareholder in the Bretton Woods institutions, such as the World Bank, which reflected Japan’s rank in GDP. Japan’s GDP became the world’s Number 2 in 1968, but even in 1983 its shareholder ranking in the IMF and the World Bank remained at Number 5.

I was in charge of the negotiation of this ranking issue of the World Bank in 1984. After the last meeting of the negotiation, the United States suddenly overturned the agreement and started to press for the opening up of Japanese financial markets as a precondition for becoming the second largest shareholding rank. Despite the strong domestic opposition against opening up the market, we finally succeeded to reach the agreement.

Alongside this market opening, aimed at correcting the trade imbalance between Japan and the United States, the Plaza Accord in 1985 doubled the value of the Japanese yen. However, the appreciated yen also contributed to the overseas expansion of Japanese financial institutions, especially in London. In this process, the profit-margin of British financial institutions, which had previously earned exorbitant interests, quickly fell to one-tenth of its former value, and many famous British financial institutions with long traditions went bankrupt.

In order to stop such an “invasion” of Japanese financial institutions into London, the Basel Committee on Banking Supervision established a rule that asked banks engaged in international operations to maintain their capital adequacy ratios at 8% or more as a standard. This rule superficially reflects past experience in securing transactions in global financial markets, as failed financial institutions were characterized by a decline in their capital adequacy ratios. However, the real intention was to block Japanese banks from invading London, as I explained. Economically, Japanese banks did not need such a high-level buffer, due to the prosperity of the Japanese economy.

### **The Current Crisis**

The United States under Franklin Roosevelt, facing the Great Depression, introduced a regulation to separate investment banks from commercial banks, called the Glass-Steagall Act in 1933. The Act had been revised gradually starting in 1980s and was completely abolished in 1999. This created a huge problem in U.S. financial markets. If a commercial bank is under the same group umbrella as an investment bank, the government has to defend highly-leveraged investments by the investment bank, because, if left alone, bankruptcy of the investment bank would lead to the bankruptcy of the commercial bank, and depositors’ savings would be lost.

When the Lehman Brothers bankruptcy shock came into force in 2008, no examination of financial state-

ments was conducted. In order to conceal the devastating situation of its financial statements, Western banking supervision authorities did not announce the result of bank examination based upon the Basel Rule. Instead they introduced the notion of the “stress test,” which is a completely fake notion, to check the health of financial institutions. Why? If, at the starting point of an examination, a certain bank is insolvent, how its assets would be affected by economic stress would not make sense at all.

If the United States authorities had observed the Basel Rule, insolvent U.S. banks would have been liquidated, instead of being bailed out. Some presidents of U.S. banks, which were owned by foreign banks, confessed that they were quietly encouraged by U.S. supervisory authorities to commit “window dressing” so that their banks would not report insolvency. As a result, nobody in the banking communities in the U.S., nor in Europe, were arrested or punished. No Western countries seemed to care about “moral hazard.” Bailing out even investment banks would lead to the moral hazard of bankers who knew that the government would always save them.

The U.S. Congress at that time adopted a resolution that asked the Association of Certified Public Accountants to freeze “mark-to-market accounting” for a certain period, despite the fact that it was advocated and demanded by Western countries at a time of financial crisis in Japan and the Asian financial crisis. Short selling—which the United States told the Japanese authorities not to suspend in the 1990s—was prohibited in the U.S. after the Lehman shock.

Economists such as Lawrence Summers and Tim Geithner demanded, at the time of the Japanese financial crisis, that Japanese banks in trouble should be closed down, using the notion of a “hard landing.” This notion was thrown away after the Lehman shock in 2008, and no commercial bank went bankrupt. In addition, the U.S. government not only bailed out investment and commercial banks, it also bailed out large manufacturing companies such as General Motors. You can see a clear case of “double standard” here, and nobody in Asia respected U.S. banking authorities and experts after the Lehman shock. The United States completely lost its reputation as a fair country.

Following the financial crisis in late 1990s in Japan, the Bank of Japan (BOJ) tried various measures for economic recovery, including purchase of stocks by the BOJ and Quantitative Easing (QE). They did not work

at all in stimulating the real economy.

Although this failed Bank of Japan experience was shared among central banks, the Fed introduced QE in the United States in order to secure liquidity for American banks. This was followed by the ECB (European Central Bank) and, in order to protect the Japanese yen from overly appreciating due to its relative scarcity to U.S. dollars and euros, the Bank of Japan also followed suit.

Excessive liquidity through QE resulted in unreasonable price increases of stocks and real estate. It created an unjustifiable boom of funds all over the world. There is grave concern about the timing of the tapering of QE as well as the unwinding of it which will follow. It will be impossible to do that at this moment without causing a collapse of the financial bubble in stocks and real estate.

### **What To Do?**

Then, what should we do? It is essential to absorb the excessive amount of liquidity by real demand coming from a rising up of the real economy. From this perspective, it is absolutely necessary for advanced economies, the United States and Europe in particular, to launch unprecedented levels of public works to stimulate their economies. It should be noted that the movement toward a Green Economy has the completely opposite effect.

The world economy must get away from the investment-bank ridden “gambling economy” that has no relevance to the real economy. A return to the separation of investment banking from commercial banking is a prerequisite against the moral hazard of bankers. The reinstatement of the Glass-Steagall Act is needed.

The fair application of basic rules must be secured. The report that UK Prime Minister Boris Johnson asked for a waiver of some rules at the latest G7 meeting is worrisome, trying to bring about the recovery of the financial center in London. The only thing allowed, if asked to me, would be that “Any cross-border transaction of an internationally operating bank must be unwound before its bankruptcy.” Since this means that all losses of the bank must be covered by a taxpayers’ burden of the country where the bank is located, supervisory authorities would pay utmost attention on the operation of banks so that authorities would not have to take such an unpopular policy of bailing out, with the sacrifice of taxpayers’ money.

Thank you very much.