

Japan's Emergency Steps Fall Short on Crisis

by Kathy Wolfe

As another fall on Wall Street drove Japan's Nikkei index toward the 9,000 danger mark, Bank of Japan (BOJ) Governor Masaru Hayami made the surprise announcement on Sept. 18, that the BOJ will intervene to "buy [stock market] shares directly from the banks, not through the market" in Japan. Stock market gyrations "have become a risk to Japan's banks and could threaten the stability of financial markets and the financial system," Hayami told the press. The collapse of the Wall Street bubble by over 25% since May alone, and the accompanying collapse of Japan's Nikkei and European markets, will be the "focus of the Group of Seven" International Monetary Fund leadership meeting Sept. 27-29, Tokyo's *Yomiuri News* reported. Leaders are so desperate to "stop the current stock price falls" that the BOJ action may be the main subject of discussion.

On Sept. 25, Nihon Keizai (Nikkei) news service reported that the BOJ is now asking the government for new legislation to allow the central bank to inject capital into failing private banks right away. As it stands now, the BOJ is unable to do so, unless Prime Minister Junichiro Koizumi formally declares that Japan "faces a financial crisis," which Koizumi again refused to do in a Copenhagen speech to the Asia-Europe Meeting Sept. 22. BOJ Deputy Governor Yutaka Yamaguchi on Sept. 25 visited the presidents of several top Tokyo banks, demanding they write off bad loans much more rapidly—a move which could bring several banks toward technical bankruptcy, requiring emergency BOJ funds injections.

The combined stock holdings of Tokyo's eight major bank groups totaled \$210 billion at the end of March, the BOJ said. Nikkei reported on Sept. 23, citing BOJ sources, that the BOJ plans to buy as much as \$144 billion in stocks from the banks over the next six months. Neither Hayami nor the BOJ would confirm any figure.

While the London *Financial Times* and *Washington Post* screamed "Bailout!" in fact Japan has the right to protect its banks and its core industrial companies. Industrial stocks in Japan "are already below real value, and Japan's equity must not be allowed to collapse further" due to the crash of the global bubble, as New York Asian analyst Henry Liu noted. Rather, equity should be "semi-nationalized, as they are doing now," to protect the national patrimony.

Japan's real error now is actually their attempt to patch up the Japanese financial system alone. In fact, it is the bank-

ruptcy of the *entire global system* which is causing the problem in Tokyo. Until Japan's elites come out in public and demand a new monetary system on a global level, they won't be facing reality.

The Bank of Japan Plan

Bank of Japan officials told *EIR* that the stock-buying plan is meant to protect the banks, not the market. "These new initiatives are not a stock market price-keeping operation" one BOJ source said. "These are policy measures to enhance financial institutions' efforts to reduce their share holdings." The BOJ is not proposing to buy stocks on the open market from all sellers, or all stocks from all banks. At the demand of U.S. deregulation "experts," Japan a decade ago enacted a series of U.S.-modelled bank deregulation measures known as "Big Bang." Under these laws, Japanese banks are being forced to sell their holdings of industrial shares on a legal timetable—as it happens, right in the middle of a global stock market implosion. If the banks simply do as the laws demand, core Japanese industrial companies such as Toyota and Fujitsu will see their stock collapse to nothing. The BOJ says that Japan's government has some obligation to ease the process, and not to let deregulation collapse prices even lower than Wall Street's crash has done.

Japanese banks have held shares since they were first created in the 19th-Century Meiji Restoration. BOJ chief Hayami, in his Sept. 18 press conference, explained that this is a major difference between the U.S. and Japanese systems. "In Japan, banks own a large amount of stocks. Except for Germany, there are no other countries that do so," Hayami said. But now, with world markets crashing, "reducing this risk is an urgent task from the viewpoint of ensuring financial system stability." Hayami was pointing to the shared Japanese and German heritage of "industrial banking," where banks' mandate is to create industry; large portions of Japan's major industrial stocks are still held by banks.

Nikkei's list of stocks held by Japan's Top Four bank groups—Mizuho, Bank of Tokyo-Mitsubishi, Mitsui Sumitomo, and UJF—overwhelmingly features industrial and infrastructure companies like Toyota, Honda, Nippon Steel, Mitsubishi Heavy Industries, Hitachi, Asahi Glass, Fujitsu, Matsushita, Japan Railways, and Tokyo Electric Power, along with IT, financial, and real estate stocks. Hayami noted the BOJ could hold the stocks "as long as ten years," indicating the seriousness of the policy.

Failure on Global Level

After Hayami's Sept. 18 statement, the Tokyo stock market recovered slightly. But two days later, the Finance Ministry held a \$14.7 billion (1.8 trillion yen) auction of 10-year government bonds and, for the first time ever, was unable to find enough buyers!

Criticism from outside Japan has also been intense. One

City of London source told *EIR* on Sept. 20, that the BOJ plan “to buy worthless shares” and the failed bond auction—something that “even in the darkest days of 1998” has never happened—are indications that “Japan is plunging into a systemic crisis” in the near future. But Tokyo officials say Japan must attempt to protect its industrial base from what is a global, not a local Japanese crisis. “The stocks held by Japan’s banks are not worthless,” objected one, “These are not dot.com stocks or Enron or WorldCom; these are the stocks of Japan’s premier industries.”

Unfortunately, neither Hayami nor the BOJ’s official statement mentioned the fundamental cause of Japan’s crisis: the collapse of the global asset bubble, led by that of the “Great Wall Street Bubble” of the 1990s, which is now dragging the entire world into depression. This bubble was caused by the post-Bretton Woods floating-exchange-rate monetary system—which has meant no monetary system at all. This in turn produced the “Enron Mentality” of the “Wall Street Business Model” whose collapse is now devastating world production.

Neither Japan nor any other nation can solve such problems using purely “domestic methods,” *EIR* Founding Editor Lyndon LaRouche commented. Even sweeping domestic

measures can not touch the problem, whose root is not inside Japan. What is rotting out Japan is the rot of the dollar-based, IMF-centered global system, LaRouche repeated again in a recent interview.

Governor Hayami was closer to the mark in August, when he warned that the dollar is poised for a bottomless collapse. The logical consequence of that, is that some rational new global monetary system is needed, such as LaRouche’s proposal for a New Bretton Woods, to replace today’s non-system of floating rates. Now even the IMF, in its *World Economic Outlook* of September 2002, warns of an uncontrolled dollar crash. “The question is not whether the U.S. deficit will be sustained at present levels forever—it will not—but more when and how the eventual adjustment takes place.” “The overvaluation of the dollar has not yet been corrected,” the IMF warns, “and an abrupt and disruptive adjustment remains a significant risk.” Such an event, would have an “adverse impact on the international financial system.”

Japan is a world power, with considerable authority at the world negotiating table now. To save its economy and its world market, Japan is responsible to propose global solutions rather than acting like a local player.

Korea Solution: ‘Iron Silk Road’

“Truly momentous changes are taking place on the Korean Peninsula” South Korean President Kim Dae-jung told the Asia-Europe Meeting (ASEM) summit in Copenhagen on Sept. 22. “We have opened a new chapter in the inter-Korean relations,” Kim said. “Agreements reached in the South-North Joint Declaration . . . are now being translated into concrete actions. In particular, the reconnection of the inter-Korean rail and road, which began last week, bears great significance in that it leads to the easing of military tensions. More specifically the barbed wire fences along the DMZ are being removed, even if only in limited sections. There will be considerable exchanges between the two Koreas in the social and cultural fields and economic cooperation will flourish. This will herald a historic shift towards a united Korean Peninsula.

“The reconnection of the inter-Korea rail link holds even deeper meaning. It completes a land link between Korea and Europe, which we like to refer to as the ‘Iron Silk Road.’ This will provide an unprecedented opportunity to realize the lofty ideal of ASEM, a united commu-



The Korea “unification train” prepares to enter the Demilitarized Zone in celebrations on Sept. 18.

nity. Trains departing from Europe will be able to cross the Eurasian continent to arrive in Korean destinations such as Seoul and Busan, the world’s third largest container port and a gateway to the Pacific. Likewise, trains departing from Korea also will be able to reach Western Europe, thereby forming a connection to the Atlantic. This will result in a drastic reduction in both logistics costs and transportation time. . . . When the ‘Iron Silk Road’ is completed, Asia and Europe will come closer as one community in the spirit of cooperation.”