Japanese Economist Kotegawa: Shut Down the Investment Banks

by Mike Billington

Feb. 29 (EIRNS)—The former Japanese Ministry of Finance official who had major responsibility for dealing with Japan's 1997-98 financial breakdown, told *EIR* this week that the current global crisis can not be resolved by the methods used to resolve that Japanese crisis, and certainly not by the Obama measures which totally failed to resolve the destruction caused by the 2008 crash in the United States.

Rather, he said, the entire investment bank structure must be shut down, across the trans-Atlantic region, both to stop their financial warfare operations on behalf of the London and New York financial oligarchy, but also because they are in fact clinically bankrupt.

EIRNS/Christopher Lewis

Daisuke Kotegawa was one of the primary Japanese officials responsible for dealing with the crisis at the time of the November 1997 explosion of the Japan banking system. Unlike during the 2008 U.S. crisis, Japan took tough measures.

Daisuke Kotegawa was an official at the Ministry of Finance in Japan when the Japanese banking system exploded in November 1997, after two banks and two securities firms went under (the seventh largest and the fourth largest, just as Bear Stearns and Lehman Brothers were the seventh and fourth largest in the United States). He was one of the primary officials responsible for dealing with that crisis.

In a Feb. 28 interview with *EIR,* he contrasted the tough measures taken by Japan to deal with their crisis, to the lack of any serious measures in the United States after 2008, which, he argues, is the reason that the crisis has returned in the western banking system with a vengeance, threatening the catastrophic collapse of the entire western financial system.

"Since Japan introduced the modern banking system about 150 years ago, after the Meiji Restoration," Mr. Kotegawa said, "it has been our principle to establish the depositors' confidence in our finance system. Those engaged in the banking system had to try their best to establish trust among all their depositors.

"So, when I had to deal with the liquidation of one of the major Japanese securities houses, Yamaichi Securities, the main principle was to try to maintain the reputation of our financial system, as well as the reputation of the supervisory authority. We tried to avoid Japan's becoming the epicenter of a world economic crisis.

"Using the long three-day weekend of Nov. 22-24, we unwound all the trans-border transactions that Yamaichi had, including a substantial amount of derivatives that they had through their branch in London. So accordingly, although the government had to take the burden of a huge amount of money to rescue these institutions, the crisis in Japan did not affect other countries whatsoever."

The key to preserving confidence, he said, was to impose "a very rigid examination system of the balance sheets of the banks. Because left alone, bankers would never tell you the real story. So we conducted a very rigid examination, and made public how much public money would be needed to clean up the balance sheets of our banks. And we actually put in taxpayers' money, enough to clean up their non-performing loans. This sent a message to our depositors that our banks were now healthy. This is very important.

"In the case of the United States," Mr. Kotegawa added, "you never conducted this kind of investigation. So there was no assurance at all among the people involved in various businesses that the banking system was healthy. Instead, you started so-called stress tests, which is completely wrong, because if the status of bank assets at the outset of the stress tests is not properly reported, then everything is assumption."

Most important, he said, is the fact that Japan threw many leading bankers in jail. "We put in the taxpayers' money to rescue these banks, but at the same time we actually pursued the responsibility and the liability and the crimes of those bankers who pushed the Japanese government to use that large portion of taxpayers' money. So we actually investigated their financial reports back five or six years, and found a large amount of window-dressing by those banks, and put members of the boards of the failed banks in jail. This has not been done at any of the United States' banks, nor, I think, in any European country. Without this kind of investigation, there is no sense of fairness among taxpayers nor among depositors."

EIR asked Mr. Kotegawa about the demands from Wall Street during that Japan crisis.

"First of all," he responded, "at that time we were under very heavy pressure from our friends in the United States to clean up the balance sheets of our banks as fast as possible, people such as Tim Geithner and Larry Summers. They sent us a message that the Japanese banking system should take a hard landing. This means three things: 1) No bail-out of the banks; 2) maintain short selling; and 3) use mark-to-market on the bank assets [i.e., value the assets at their real value on the market, not at their inflated face value]. But unfortunately, when the Lehman shock started [the 2008 so-called sub-prime crisis in the United States], all of these three principles were breached by Larry Summers and Timothy Geithner themselves."

Asked if Japan followed the advice of Summers and Geithner, Mr. Kotegawa said: "After the huge shock at the end of 1997 and 1998, we followed this advice from the United States, but we found that this was not the right policy. We actually kept this principle for the first two years, and then changed the policy in 2000. One thing I'd like to emphasize, is why it is so important to punish those bank officers, based upon my own experience in investigating various cases back in Tokyo: Those bankers would not admit that they made mistakes. And if they do not admit they made mistakes, then they will repeat the same mistakes again and again. And that is now actually happening in the whole financial system in the United States and in Europe. They are still engaged in the same kind of very risky transactions, such as huge amounts of derivatives."

Finally in 2000, Japan dropped the policies demanded by Wall Street. It put strict limits on short selling, and bailed out some of the viable banks which were not weighted down with derivatives. It retained the mark-to-market accounting. "When the Lehman shock started," Mr. Kotegawa said, "it was your Congress which actually told the association of accounting firms to relax mark-to-market accounting for a while."

The Current Crisis

Mr. Kotegawa told *EIR* emphatically that the current general breakdown of the entire western financial system could not be dealt with by the methods used in Japan. Simply shutting down bankrupt banks and jailing the criminals running them, while necessary, is not enough when the entire western banking system has been turned into a gambling casino, as the result of the takedown of Glass-Steagall.

What is required, he said, is "large scale, world-scale fiscal stimulus, such as the one introduced by China in the form of the AIIB. If this is done, this would create real demand and create new employment."

He emphasized that the entire investment bank structure must be eliminated: "We should destroy all of these—close down all of these investment banks. If you conduct a real examination of the balance sheets of these banks, using the method of 'line sheets' examination, this would surely reveal that these investment banks are actually insolvent."

This would be accomplished by the restoration of Glass-Steagall, as a first step to shutting down Wall Street. Nothing less can prevent the implosion of the now two quadrillion dollar derivatives bubble dominating Wall Street and the City of London, and the death and destruction that is already sweeping Europe and the United States under the tyrannical rule of Wall Street under Obama.