

Restore Glass-Steagall and Jail Criminal Bankers Before the System Implodes!

Michael Billington interviewed Daisuke Kotegawa on Oct. 8.

Michael Billington: Greetings. I'm Mike Billington; I'm meeting with Mr. Daisuke Kotegawa, and I'll give you a bit of a background on his career. Mr. Kotegawa is now the research director at the Canon Institute in Japan. He was, in the 1990s, one of the officers at the Ministry of Finance in Japan, who dealt with the late 1990s banking crisis in Japan; which we will discuss a bit here. He then became the executive director from Japan to the IMF for three years, I believe; at which point, we met with him. He's been a close friend of *EIR* and the Schiller Institute; he's spoken at several of our conferences, including the recent Schiller Institute conference in Berlin. He has been a strong advocate of the Glass-Steagall restoration; not only in America but internationally. We will discuss precisely some of those issues.

Let me ask first for you just to give your overview of the current crisis, eight years after the Lehman shock; and why you think we did not restore a sane banking system after that shock, and why we're now facing the crisis that we're in.

Daisuke Kotegawa: Well, basically, people in charge in 2008 in the case of the Lehman shock,— they were successful in stopping this crisis from becoming something like the Great Depression in 1929. But they made some substantial mistakes which we didn't do back in Japan in the late 1990s. The most important thing is, the authorities didn't arrest anybody among the bankers who were responsible for this big problem. From our experience in Japan, we know that bankers will just repeat wrongdoing again and again, which



EIRNS/Julien Lemaître

Daisuke Kotegawa

would give them big profits. So, the only way we can stop them, is to get rid of those people.

Billington: Which has not happened at all in the United States. Many people were arrested in Japan, and none here. Do you want to say something about the failure to restore Glass-Steagall and the failure of the Dodd-Frank bill to deal with this problem?

Kotegawa: Yes, the largest problem we have now is due to the abolishment of Glass-Steagall; now investment bankers can get involved in a huge amount of a kind of gamble, using ordinary people's money and deposits. These deposits are very, very important for the ordinary people; so the government cannot disdain these ordinary people's deposits. That's why the government has to maintain this kind of thing, a basic financial system. So, there's no other option for those governments but to bail those banks out in order to maintain ordinary people's deposits. Basically what happened in the past is, investment bankers actually privatized their own profits, while they nationalized the losses, and socialized their risk.

Billington: A very interesting formulation. Mr. Kotegawa is here in Washington because the IMF is having its annual summit here in Washington this weekend. Do you think that the IMF is going to be discussing any competent solutions; or do you think they're spinning their wheels trying to find some way of bailing out the current disaster?

Kotegawa: I hope they are, but I'm afraid they would not; because basically the IMF is a Europe-centered institution. They don't want to get these kind of

problems exposed to the entire world. My deep concern is that the IMF cannot do anything.

Billington: The center of the current threat of an explosion is the crisis of Deutsche Bank, although many other banks are in similar if not quite as severe a situation. You have recently put forward a four-point proposal for what must be done if we are to prevent the Deutsche Bank uncontrolled collapse from causing contagion throughout the entire Western banking system, perhaps even in this month of October, I believe you said. Do you want to discuss that proposal?

The Way Out of the Crisis

Kotegawa: Yes, we have a way out; but before doing that, we need I think, two other conditions. That is, number one is the reintroduction of Glass-Steagall so that these kinds of mistakes will not be repeated; that's number one. Number two is the people who are responsible for these kinds of crises should be punished. Those are the conditions. We have to control this kind of bigger crisis; and this would require a very extensive cooperation of banking supervisory authorities

of all countries where the counterparties of Deutsche Bank are headquartered. The first thing this group will have to do is to set, secretly, the specific day; where they are to settle all of these derivatives. Then, that would come down to the specific amount for each bank to get a bailout. So, all governments have to be ready to supply the required amount of money to bail out those banks.

Billington: On the condition that they implement the preconditions you mentioned; the Glass-Steagall and the arrest of the criminals responsible.

Kotegawa: Yes.

Billington: You have indicated that there's no solution to Deutsche Bank outside of those conditions, but that it has to be nationalized, that the German government has to give confidence back to the bank by putting the state behind it. How would that function? And do you think it will happen?

Kotegawa: Well, the banking sector is different from the manufacturing sector. In the manufacturing sector, it takes time for any manufacturing company to become insolvent; it takes 5-10 years. But the banking sector is basically a virtual world where the confidence in the system and also in a specific bank is very important. It is very important to make an announcement by the German government that the German government will be standing right behind this bank. The best way would be for the government of Germany to announce that they will partially nationalize Deutsche Bank, and ensure that this bank will not collapse.

Billington: Do you have any expectation that the German government is going to do that?

Kotegawa: This would be a big critical issue, which I don't know whether they are prepared to do it, because this big problem was created by the London branch of Deutsche Bank, where most of the employees are either British or American. The Germans are not involved, so when I visited Germany last June, I found there was much disinterest in rescuing Deutsche Bank; rather, one of the people said, "Let that bank collapse."

Billington: The impact of that, however, on the German economy would be devastating.

Kotegawa: No, the German economy is very healthy compared to other countries in Europe; but if Deutsche Bank collapsed without any control, that

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would have, I think, a tremendous contagion effect on other major banks in Europe. I just will refrain from specifying the names of those banks, but I should say that about 10 to 15 major banks in Europe would become insolvent and disappear.

Billington: Mr. LaRouche's proposal, which is very similar to yours, uses as a reference the former CEO of Deutsche Bank, Mr. [Alfred] Herrhausen. How do you see the difference between Deutsche Bank as it functioned under the Herrhausen administration and previous to that, and how it has since that time?

Kotegawa: Well, if I just put it in a very simple way, that's the difference between a commercial bank and an investment bank. The investment bank does not create anything for the ordinary consumers, while commercial banks do not create huge amounts of profits for their banks. But they play a very important role to enhance the industries in certain countries. So, in a sense, I think commercial banks are very important for national economies and for their depositors.

The Source of Economic Growth

Billington: You've made a very strong point of the necessity of arresting the bankers responsible for having destroyed these banks. You indicated to me at one point, that in Japan the arrest of the bankers had an impact in lessening the banking community's impact upon the Diet, upon the parliament. How do you see the power of the Wall Street and London banks over the governments of Europe and the United States today, where of course, nobody has been arrested since the 2008 crisis?

Kotegawa: In 1997, the big crisis started in Japan, starting with the downgrading of the seventh largest investment bank in Japan — named Sanyo. Then, just three weeks later, the fourth largest investment bank of Japan, named Yamaichi, was also downgraded; and I was in charge [of dealing with the crisis]. The next year, two big major banks — one named Long Term Credit Bank, the other named Nippon Credit Bank — both of them were partially nationalized. Then all of the board members of those four institutions were later arrested and put in jail. That did not stop there, and supervisors like the people who worked in the central bank of Japan, the Bank of Japan, and also my clique in the Ministry of Finance; some of them were arrested just because they had too many occasions to have dinner with those bankers, or those securities houses. They were put in jail.

Some of my friends committed suicide and died; but in those days I thought those things were very cruel actions over those people. But after I observed here in the States what happened after the Lehman shock, I came to the personal conviction that arrest of those bankers was necessary to get rid of their big power over our Parliament.

Billington: There has been not a single person arrested from the banking crisis of 2007-8 in the United States; and in fact, the Department of Justice has explicitly stated that they had made the decision not to arrest any bankers. That it made it better for them to collaborate with the banks, rather than to arrest them. The result, I think, is now upon us. What is your concern about whether we can make it through this often fragile month of October; not only in the United States, but in the entire Western banking system? Or, do you think that this has reached a point that it cannot go on any further without either a collapse or a Glass-Steagall solution?

Kotegawa: Well, I was in charge of the investigation of those failed financial institutions back in Japan; and I found that those people who worked in banks didn't have any loyalty to their own banks, nor did they have any loyalty to their nation. Their interest was just for their own personal interests. Unlike in some people's imaginations, they are not smart people. Once they have a very good opportunity to have made fortunes in investment banking, then they really would like to repeat it. So, unless our authorities stopped them, it is highly likely that they would just repeat it. The government has to bail them out again and again, as long as commercial banking is linked with investment banking. I am not a U.S. citizen, but I had a chance to watch a very famous movie about Bonnie and Clyde; and they robbed a certain amount of money by attacking banks, but the money lost from this big crisis cannot compare with the scale of the money which Bonnie and Clyde robbed. They were shot dead, while people who are responsible [for this crisis] are not even put in jail.

Billington: Let me ask last, I know that you have, over your years of experience here at the IMF and otherwise, established very close friends around the world; across Europe, the United States, Brazil, Russia, China. As you know, in a very real sense, the world is divided between two paradigms now. One that you've described

—the general breakdown crisis, unrestrained speculation; and on the other hand, among the BRICS nations and the New Silk Road process in China, the emergence of a paradigm based on development, based on building infrastructure — railroads, water projects, nuclear power. And you have had some contact with some of the people involved in that paradigm as well. What is your advice to America and to Europe in terms of our relationship with this Russia-China-India nexus of nations and this New Paradigm?

Kotegawa: After this kind of financial crisis, the most important thing is to create real demand all over the world. Not just the money game, which has been enhanced by so-called “quantitative easing”. Those emerging countries, including the BRICS, they do have a gap between their current economic living standard and the desire for a living standard. So this is a source of a big potential for economic growth in the future.

Billington: The United States generally gave up on investing on infrastructure in the rest of the world, or actually even within the United States. The argument being that this is better left to the private sector. The result seems to be that while the BRICS-centered nations, the New Silk Road countries are investing in huge infrastructure projects across Asia, South America, Africa; the US and European industries are very little involved in that process. How can we get the tremendous opportunity to the Western industries to recognize that this would be to their benefit, as well as to the rest of the world?

Kotegawa: To be very frank, I see there is very little space left for improvement in infrastructure, both in Japan and also in Europe. But that is not the case here in the United States. I must say that the highway system, the railroad system here in the States is inferior to their counterparts in China. China has much, much better railroads; they have much, much better highways. This kind of infrastructure can contribute a lot to the national economy.



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U.S. infrastructure needs rebuilding to promote economic growth. The high-speed train between Tokyo and Nagoya, of the kind shown here, makes the trip in 90 minutes and there is a train every seven minutes. That distance is the same as from Washington and New York, but the U.S. “express” train takes three hours and there are only 20 trains per day.

Let me give you a very simple example. Between Washington DC and New York, now it takes three hours by train, the super express. The distance between these two cities is equal to the distance between Tokyo and Nagoya. With the Shinkansen [Japan’s high-speed rail network], it takes only one hour and a half between Tokyo and Nagoya; while here it takes three hours. In addition to that, between Tokyo and Nagoya, we have those high-speed trains every seven minutes; every seven minutes with eighteen cars, and each one can carry 100 people. So apparently, if the United States had this kind of high-speed train system, that would enhance economic growth here in the States... this is really sad.

Billington: This is really sad. I’ll conclude this. This is a time when we need to bring some joy to America, rather than sadness; which requires that we follow the sage advice of Mr. Lyndon LaRouche and of Mr. Daisuke Kotegawa. We’re at a turning point in history, and our ability to implement sane policies that look to a future will determine whether or not this nation and Europe decline into a cataclysmic collapse and potential war; or whether we can actually revive that American spirit that was once looked upon by Japan and others, as a model for how to go forward.