Japan's Banks Are Near Meltdown in a 'Bush Crash'

by Kathy Wolfe

Japan's top ten banks, the world's largest, officially lost over $35 billion in capital in the two trading weeks of Aug. 26-Sept. 6, as Tokyo's Nikkei 225 index dropped almost 10%, twice falling below the 9,000 mark, a 19-year low. Since July 1, the Nikkei has suffered a 23% drop, the chief significance of which is that Japanese banks hold a large percentage of their capital in Nikkei stocks; this means that the banking system has been decimated.

While it recovered to a weak 9,200 mark in the second week in September, Japanese authorities are virtually powerless to stop the Nikkei from a bottomless slide for the rest of this year, since it is simply following the falling New York markets, and the American physical economy, into the pit. Japan's economy is totally dependent on exports to U.S. consumers buying on credit. Even the U.S. government's doctored data showed, in early September, that American consumers have stopped shopping, unemployment is rising, and the U.S. "recovery" is dead. In New York, the Dow Jones Industrial Average is down 10% from its mid-August high.

President Bush's threats before Congress and the UN, to go to war with Iraq, will only magnify the crash in New York and Tokyo, Tokyo analysts warned, rather than propping the dollar up, as in prior Mideast wars. "People are realizing that a further rise in oil prices will worsen the United States' enormous trade and budget deficits, and further deter capital flowing into the United States, and some are calling this the 'Bush Crash,' " said one Japanese observer.

Bank of Japan (BOJ) Governor Masaru Hayami, in an Osaka press conference on Sept. 6, implied that Japan's megabanks may soon need to be declared in "financial crisis," so that emergency measures can be taken to prevent chaos. Banks "must continue to dispose of bad loans," Hayami said, but if they do so in this "free market," then the banks "will not have enough capital" to continue business. "If doubts about the stability of the nation's financial system arise, the government must take action in a timely manner, including injections of public funds" into financial institutions, Hayami said. He called for Prime Minister Junichiro Koizumi to be ready to invoke official declarations that a "financial crisis" is near, an act which is legally required for emergency banking measures to be taken.

'Sense of Crisis'

Nobuo Yamaguchi, head of the Japan Chamber of Commerce and Industry, made a similar speech on Sept. 6, warning that a further Nikkei drop would decimate shares of financial institutions ahead of the Sept. 30 closing of the books for the first-half of the fiscal year. "The stability of the financial system is the most important thing," Yamaguchi said. "A concerted injection of public funds should also be looked at," he advised, adding that injections "should be done soon."

"A sense of crisis was what prompted Governor Masaru Hayami and Mr. Yamaguchi to call on the government to inject public funds into banks," Nikkei Keizai News wrote in its Sept. 9 editorial. Officially, Japan's Financial Services Agency "maintains that Japan is not in a financial crisis now. But the FSA is likely to face mounting calls to alter its position if stocks slide much further," the editorial noted.

"The BOJ believes that the Japanese economy is trapped in a vicious cycle. An economic downturn resulting from cuts in loans by banks is helping to push down stocks. Consequently, banks' available funds to dispose of non-performing loans are shrinking because of eroding shareholders' equity, making them become more risk averse, and reducing loans further." It further noted, that once the legal requirement for declaring a crisis is met, there is a $150 billion fund sitting at Japan's Deposit Insurance Corp. to be tapped for injection into banks and other reorganization measures.

The real question being hotly debated inside the BOJ and across the Tokyo elites, is what *kind* of emergency measures can possibly work? As *EIR* Founding Editor Lyndon LaRouche has repeatedly said, there is no *internal solution* which Japan can possibly implement on its own, to a crisis fundamentally caused by the crash of the dollar-based global system. Japan's best course, LaRouche has insisted, is to point this out loudly in public, and call for the international conference LaRouche has proposed, to create a New Bretton Woods system.

Failing that, Tokyo officials are left debating whether to follow demands by President Bush's Chief Economic Adviser Glenn Hubbard, for a bank bailout based on the 1980s U.S. savings and loans miscarriage, in which good public money is thrown after bad. The problem is, that no one seems yet to have mustered the courage to voice the "third alternative" to the two bad choices of either just accepting or rejecting the Hubbard insanity.

Some BOJ officials insist that Governor Hayami will resist the Hubbard bailout, and is at least trying to get "the Koizumi government to stop pretending everything is fine and get a sense of crisis," as one put it. Others say Hayami is even studying use of a "mini bank holiday" reminiscent of what Franklin Roosevelt used to halt the 1933 U.S. bank collapse. But other BOJ insiders say that Hayami was only speaking "hypothetically," and is in no way ready for solutions which might rock the boat. "Even if Mr. Hayami thinks we are falling into a crisis, it is the role of a central banker never to officially express such a thing in public," one former official insisted.

Another Useless Package

Prime Minister Koizumi's Council on Economic and Fiscal Policy meanwhile announced, on Sept. 9, yet another useless bailout package for the stock market—perhaps the tenth failed package which Japan will have tried in the last five years. It slightly and temporarily pulled the Nikkei above 9,000. Measures to be implemented on Sept. 19 include $22.5 billion in Ronald Reagan-style 1980s "supply-side" tax cuts, as demanded by President Bush's chief economic adviser Glenn Hubbard. Readers will recall that Moody's and other Wall Street rating agencies have already rated Japan's Government Bonds as close to "junk paper," due to Japan's recent years of already enormous budget deficits. Further "voodoo economics" tax cuts would be an exercise in disaster acceleration.

Koizumi's lunatic Harvard advisers, such as Economics Minister Heizo Takenake, also want to bail out the stock markets with a further $26 billion in public pension funds, and even household savings on deposit with the federal postal system, to buy exchange-traded funds (ETFs). ETFs are stock index derivatives, just a numerical value in the sky for the average value of X number of stocks on the Nikkei exchange on a given day. That is, they are a piece of speculative paper backed by absolutely nothing. Opponents worry that Japan's pensioners could end up losing everything, as millions of Americans have just lost their 401(k) pensions.

The Council's package would also include "injections of public funds into ailing banks and temporary nationalization of troubled banks," according to Nikkei, but no numbers are given yet. The Finance Ministry and the bank regulators at the Financial Services Agency have already attacked the tax cuts and bank bailout.

Even Finance Minister Masajiro Shiokawa pointed out on Sept. 10, that previous bailout plans have been less than effective, and that the government ought to reconsider the state-run stock buying fund which has been supporting the market through all the years of Nikkei crash. "The government launched a 4 trillion yen stock-buying fund in February to buy and hold cross-held shares from banks through late April," he noted, referring to industrial shares held by banks which the government, via deregulation changes, was now forcing banks to sell off. "We created the fund amid a chorus of calls to do so, but what has become of it?" he asked.

Pensions Next Down the Drain

Finance Minister Shiokawa also questioned the legitimacy of the government using pension funds to buy ETFs. "Pension funds don't belong to the government—they're someone else's money," the former Osaka shopkeeper noted, adding that he was wary of opening up such funds to risks. The Bank of Japan, too, is resisting calls for the BOJ and the pension funds to buy ETFs. "It is not easy, even for pension funds and the postal savings system, to purchase ETFs beyond the amount in their portfolios for underpinning stock prices," a BOJ official told Nikkei on Sept. 10.

Meanwhile, Japanese pension funds are instead being used, in part, to bail out the U.S. stock market, Nikkei revealed on Sept 10, in an article headlined "Pension Fund Flow to U.S. Stocks Continues on Rigid Investment Formula." "Despite weak U.S. stock prices, a large amount of Japanese pension money continues to flow to the U.S. market due largely to rigid asset allocation rules used by pension fund managers in Japan," the article states. "Asset management firms must buy up U.S. stocks when their prices fall, because they are required to invest a certain percentage of their assets in foreign financial products."

Japanese trust banks bought almost a net $7 billion in U.S. stocks in July using pension funds, Nikkei noted. "They have been net buyers for six consecutive months. . . . Though the Dow Jones Industrial Average has dropped more than 10% in the past six months, U.S. stocks are being purchased more vigorously than ever by Japanese pension funds. But although such asset allocation is intended to secure stable returns, in fact losses may swell rapidly if U.S. stock prices continue dropping."

Japanese private and public pensions contain almost $1 trillion total in funds. This large pool will continue to be a major target of Wall Street predators until a new monetary system stops such practices.