Bush Demand for Shock Smashes Tokyo Market

by Kathy Wolfe

On top of the Wall Street bubble crash decimating world markets, Tokyo stocks were further pushed to a 19-year low of 8,879 on Oct. 4, after Prime Minister Junichiro Koizumi fired the head of the bank regulatory Financial Services Agency (FSA) and gave IMF shock therapist Heizo Takenaka the double portfolio of FSA head and chief economic advisor. The Harvard-trained Takenaka set up an emergency bank task force run by Takeshi Kimura, Tokyo branch chief of Wall Street's cost cutting accountants KPMG. Kimura threatened to force immediate write off of $375 billion (Y45 trillion) in non-performing loans (NPLs) at Japan's major banks, without any offsetting new credits for economic development.

"Such a hard-line approach to bad loan disposal would drive many companies out of business and cause a big jump in unemployment," Tokyo's Nikkei news reported. "Indebted companies will be forced into failure, and banks will feel the pain of huge losses. . . . Speculation that large banks may be nationalized is spreading. . . . Anxiety is high among borrowers in construction, real estate and retailing, where many firms are having trouble repaying debts. . . . The steel and auto industries" will also suffer.

U.S.-Made Trigger for Global Meltdown?

Japanese press widely report that "creation of the task force comes after external pressure by the Bush Administration," as Nikkei put it. President Bush personally demanded Koizumi take these steps at a UN Sept. 12 meeting, Yomiuri News said. "Takenaka was strongly urged by R. Glenn Hubbard, chairman of the U.S. Council of Economic Advisers, to tackle the bad-loan problem," Nikkei adds. The IMF annual meeting Sept. 29 also issued a communiqué strongly demanding that Japan "risk having some struggling corporate borrowers collapse."

The U.S. Central Intelligence Agency meanwhile will hold an emergency meeting on Japan's economic crisis, Nikkei reported from Washington Oct. 3, "to analyze the impact on the U.S. and the world if the economic situation worsens further. . . . The Bush administration has grown nervous about risks facing the U.S. and the world economy that might hamper any planned military action against Iraq." The CIA would not confirm the report.

Koizumi, in an Oct. 4 statement, said "We must do what we must do," regardless of the pain to the economy. "Using tax money to fund public works projects to stimulate the economy is outdated," he said, referring to calls within the government coalition for new budget spending to offset Takenaka's IMF mass-layoffs plan. In a public relations stunt, Koizumi instead visited the Tokyo Stock Exchange Oct. 4 for the first time in office, trying to buoy sentiment. But "traders were unenthusiastic," Nikkei reports, and it took government pension fund buying to drag the index back over 9,000 to close the week at 9,027. Over $1.3 trillion has been lost in the Nikkei index meltdown under Koizumi.

Two Opposed Policies

There is more, however, to this apparently grim picture than meets the eye. Koizumi's actions are particularly bizarre coming on the heels of the Bank of Japan (BOJ) emergency announcement Sept. 18. that the central bank would defend Japan's industrial base (see *EIR* Oct. 3). The BOJ announced plans to buy and hold what could be as much as $144 billion of corporate stocks held by major banks. These stocks of Japan's major industrial concerns such as Toyoto and Fujitsu, must be sold, into a panic market, under U.S.-forced deregulation laws passed by earlier Japanese governments.

It is evident that the BOJ initiative, and the U.S.-ordered shock-therapy policy for which Koizumi just overturned his Cabinet, are in opposition.

Major attacks are coming out against the Bush Administration's international policies—particularly from business leaders—indicating the policy battle is far from over. "Thorough bad-debt cleanup without any anti-deflation policies is like a surgical operation without anesthesia," Yasushi Okada of the Japan Business Federation "Keidanren" said Oct. 4. Keidanren chairman Hiroshi Okuda called for more comprehensive emergency measures for industrial revitalization, charging Koizumi's program would simply trigger a crash.

Makoto Utsumi, one of Sakakibara's predecessors as Vice Minister for International Finance, wrote an op-ed in the *Yomiuri News* Oct. 3, indicating that not a Japan crash, but a dollar crash, could still result from miscalculations around war with Iraq. In his op-ed, entitled "Dollar, Yen, Euro in 'Reverse Beauty Pageant' ", Utsumi writes that the three major currency areas are in a race to see which one will be dumped by investors the fastest. This is in part because the countries concerned want to cheapen their own currencies to stimulate exports, he writes, but it is also in part because the economies concerned are simply becoming weaker and weaker—led by the United States.

"Market participants are focusing on the negative factors affecting the dollar," he writes, because they are "looking at a recovery that results in neither business profits nor any upturn in the labor market. They are also watching other weak points in the economy, such as the huge current account deficit, which equals more than 4 percent of the U.S. gross domestic product, and the declining influx to the United States of capital from Europe, which thus far has financed the current account imbalance." Utsumi noted reports that Iran and other OPEC countries are "considering adopting the euro instead of the dollar for crude oil export transactions."