Japan Asserts Interests, But 'No' Is Not Enough

by Kathy Wolfe

Since Japan's Harvard-trained Financial Services Minister, Heizo Takenaka, backed down Oct. 30 and issued a weakened version of his "made in U.S.A." emergency banking package, a remarkable rising commentary in Tokyo has re-asserted the national interest of Japan, as distinct from the financial interests of Wall Street. Diet (parliament) Member Shizuka Kamei, dean of the ruling Liberal Democratic Party (LDP), compared Takenaka to Maximilian Robespierre, head of the French Revolution's Terror, for his plan to decapitate Japanese industry by foreclosing on $400 billion in bank loans, throwing 4 million people out of work.

Mr. Kamei added that Mr. Takenaka is "nothing better than an agent of vultures," referring to the Wall Street "vulture funds," as they are known in Asia, which hunt distressed companies to snap up their stock cheap. "Mr. Takenaka's orientation is highly rated overseas, but we need to pay attention to attempts by foreign companies to take over Japanese firms," Keiichiro Okabe, president of the Japan Petroleum Association, warned explicitly Nov. 6. "There naturally have been demands for Japan's national interest to be protected."

White House Chief Economic Adviser Glenn Hubbard "keeps urging that Japanese banks' non-performing loans (NPLs) be dumped at deep discount into the markets, because it's in the interests of U.S. business to buy them up cheap," said a source close to the Bank of Japan. "But those I really blame are the Japanese who agree to this, because it's not in Japan's national interest."

The U.S. dollar meanwhile fell 3% against the yen in the first week in November, after Bank of Japan Governor Masaru Hayami repeated his prior comments that "we can't help it, since the dollar is weak due to U.S. economic fundamentals." His comment is a sign that this time, Japan may not intervene to bail out the buck.

It is well the "Robespierre" plan will not close chunks of Japan's industrial base tomorrow. Yet Tokyo cannot impotently "Say 'No,' " as in the 1980s, and survive. Japan's elite must speak out about the real cause of the crisis: the bankruptcy of the dollar-based global financial system. Tokyo should call for a global bank reorganization, including for the equally bankrupt New York and European banks, and demand a New Bretton Woods world monetary system, so that trade can be restarted. The more Tokyo tries to go it alone, with purely domestic measures, the more its industrial firms will fail.

"Like Maximilien Robespierre," is how Japan's Financial Services Minister Heizo Takenaka is being blasted, by Liberal Democratic Party dean Shuzuka Kamei and many others. Takenaka, a Wall Street agent in Japan has come under fierce attack. Stopping Takenaka's mass-layoffs-and-shutdown strategy, however, won't stop the global financial collapse behind it.

Insider Trading Charged

The stiffening of spine in Tokyo is directly related to *EIR's* warnings since January that the American Enterprise Institute, the Caxton hedge fund, and their Wall Street friends, are organizing a "sell Japan" movement (see "Japan Facing Reverse Pearl Harbor," *EIR*, Jan. 25). Their aim is to buy up chunks of the world's second industrial power, as they did in Korea and Indonesia during 1998, removing a major independent economic base from Asia.

Even Tokyo's top conservative daily, *Yomiuri News,* on Nov. 6 slammed Takenaka, his chief of staff Takeshi Kimura, and Bush Chief Economic Adviser Hubbard, as being in cahoots with Wall Street. "Japan has made the right choice at the 11th hour" in dumping the plan, it editorialized, "despite a barrage of praise for the Takenaka plan in U.S. and European media."

First, *Yomiuri* noted, economic reality is that Japan is in a 1930s deflation, and "the Koizumi Administration's claim that bad loans cause deflation, is patently not true. Deflation causes bad loans. . . . If the Takenaka plan had gone into force, it would have caused . . . a serious credit contraction, plunging the nation's economy into a catastrophic depression. . . . The Japan Research Institute predicted that the plan would . . . add 3.32 million people to jobless rolls and push down GDP by as much as 6.4%. . . .

"Under the circumstances, the public has been embarrassed at repeated remarks by Glenn Hubbard, chairman of the U.S. Council of Economic Advisers, that he has thrown his support behind the Takenaka plan," *Yomiuri* went on. Worse, Takenaka's plan gave "confidential information of the Financial Services Agency" to Takeshi Kimura, Takenaka's chief of staff—who is also Tokyo Branch Chief of the top Wall Street accounting firm KPMG. "There might have even been the danger of the information being used for insider trading or otherwise abused. On top of this, some analysts have pointed out that Hubbard's remarks may possibly be in line with U.S. investment fund companies' intentions to buy up Japanese banks and other corporate entities at bargain-basement prices."

Fight over Industrial Revival

In more signs of fight, meanwhile, Japan's government on Nov. 8 announced the creation of a new Cabinet Ministry for Industrial Revitalization, headed by MP Sadakazu Tanigaki, former head of the Science and Technology Agency. The new Ministry is to "ensure that Japan's industrial sector doesn't get its head chopped off" by the Harvard Jacobins, in whatever program is implemented to reorganize Tokyo's brain-dead banks, Tokyo officials told *EIR.*

The new Ministry will, by implication, have the power to create directed credit, by having "the power to assess which troubled industrial companies have a shot at survival and should be bailed out," Cabinet Secretary Yasuo Fukuda said. That is, it will, as the old Ministry of International Trade and Industry (MITI) used to do, "pick winners." The core of Wall Street's "Big Bang" deregulation drive in Japan has been that government was no longer allowed to "pick winners." The new entity will be separate from the state Resolution and Collection Corp. (RCC), which is charged with buying up bank loans. Importantly, this will allow the new entity to focus on saving industrial capacity, rather than maximizing paper profits, as is the mandate of the RCC.

Finance Minister Masajuro Shiokawa told the Diet Nov. 7 that he may earmark over $85 billion (Y10 trillion) for "industrial revitalization. . . . It is impossible to revitalize industry within the figure projected for bad loan disposal. I predict it will require several times that figure," he said. The government set aside a total of $590 billion (Y70 trillion) for bank bailouts (deposit guarantees) and "revitalization," but now it appears the two funds will be separated and industry will get much more cash, a Tokyo source told *EIR.*

Nikkei on Nov. 5 described the behind-the-scenes policy battle in which BOJ Governor Hayami won the equally elderly but more vacuous Finance Minister to his view. It reported an Oct. 22 scene in which the elderly Shiokawa, angered at the Harvard boy's focus on closing banks, "yelled at Takenaka: 'We have to create a system under which industrial companies with recovery prospects can be revived!' " On Oct. 23, Shiokawa, Hayami, METI Minister Takeo Hiranuma, and Takenaka "held talks without Ministry bureaucrats"—that is, brutal talks. The older men rammed it down Takenaka's throat that there would be a "new entity," *Nikkei* said.

Banks Against the Wall

The bureaucrats may battle, but Japan, Inc. is going down the tubes. The reality is, that none of these purely domestic proposals can possibly save Japan's $10-trillion banking system, which lives or dies on global trade and investment. The banks, for their part, are increasingly turning to private-sector made-on-Wall Street "solutions," out of desperation. Tokyo's largest banks are now resorting to the gambling casino of "credit derivatives," *Nikkei* reported Nov. 7, in the mad accountant's desire to improve their capital-to-assets ratios—by shrinking loan assets!

The $1.2-trillion Mizuho Bank reduced its loan assets by $11 billion as of Sept. 30 through credit derivatives. Sumitomo Mitsui Banking plans to turn to credit derivatives to slice off $5 billion in loans, largely to some 1,000 to 2,000 small and midsize companies. UFJ Holdings is also using credit derivatives to reduce assets.

Credit derivatives are an accounting fiction under which lenders and investors engage in "financial agreements" that they are "buying and selling the credit risk associated with a particular loan or pool of loans," without the loans leaving the original bank. Normally a bank must sell off loans at a loss, or force borrowers to repay under duress, to reduce assets. But banks don't like losses, or ruining relations with borrowers.

With credit derivatives, the loans stay in the bank's portfolio. An outside third party such as a Wall Street vulture fund or "special-purpose company" agrees to buy the credit derivative, and thus assumes the risk if the loan goes bad. The bank pays the third party a premium similar to an insurance premium, in return for receiving protection if borrowers default—somewhat like paying protection to the Mafia. The third-party company then sells the risk again, by selling bonds to the public. Investors who buy bonds issued by the third-party company receive interest payments, but if loan losses occur, they lose some or all of their principle. What this means is that if the loan goes bad, someone's Aunt Michiko in Osaka, whose money market fund bought the bonds, loses a chunk of her savings.

Under the glorious lunacy of accounting rules, the banks don't have to count the loans as part of their assets, once this "protection" is bought. Ergo, their capital-to-asset ratios look better to Moody's rating agency, the gnomes at the Bank for International Settlements, and other Western financier outfits. Naturally none of this means anything in the real world, and Japan's mega-banks are just as exposed to runs and predatory operations to "sell Japan" as ever before. But more chunks of the Japanese economy are being snapped up by the Western "third parties."

Germany

Revenue Crisis Brings Worse Budget-Cut Folly

by Rainer Apel

The first two November weeks are already certain to go down into history books as a missed chance for economic recovery in Germany. For reasons that insiders say have to do with massive armtwisting by the creditor banks and the hard-line monetarist lobby in the country, the re-elected government of Social Democratic Chancellor Gerhard Schröder decided to drop its earlier opposition to the European Union's Maastricht budgeting rules (see *EIR,* Nov. 1) and to stay on the budget-balancing course, instead.

Finance Minister Hans Eichel even did, what he was not obliged to do, and had recently said he couldn't do: namely, give assurances to the EU Commission and the European Central Bank, that the government would drive the national deficit under the 3% of GDP level in fiscal year 2003. But faced with an "unforeseen" tax revenues shortfall close to 20 billion euros in the fiscal year already, Eichel is certain to be overrun by another "unforeseen" disaster next year as well, because the overall economic situation is not improving, but getting worse. For the first time in years, the national jobless figure did not decrease in October, but increased; not even the traditional pre-Christmas boost is there any longer.

And, there are daily protests in Berlin: Within the first two October weeks, construction workers staged a protest rally; the dentists did so; then social workers and personnel of 40 medical care associations; and medical doctors are even threatening a boycott of government-decreed measures to reduce health costs. Hardly re-elected, and equipped with a parliamentary majority of only four votes, the government is already deep into an Autumn of public discontent. Plans to cut salaries of civil servants by 10%, and the refusal of wage increases for public sector workers and employees, have already prompted the public sector unions to stage warning strikes and to threaten a nationwide strike after the last wage-bargaining contracts expire in February 2003.

The budget-balancing plans of the government are horrendous: In 2003, the government wants to cut labor costs by a total of 5.4 billion euros, plus another 2.5 billion out of jobless support payments; in the health sector, the government wants to "save" another 2.5 billion by imposing a strict ceiling for state subsidies to health insurance companies and hospitals. Families that want to build a home, will lose almost all government support that has been paid to date, and farmers pay new value-added taxes with every purchase of fertilizer, lifestock and agricultural machinery. The mandatory payment to be made by every citizen into the state pension fund, will increase from 19.1% to 19.5% of the monthly income; the next stage of the ecology tax will add several percent to the tax on every liter of diesel or gasoline.

For the average taxpaying citizen, an extra 100 euros will have to be paid every month in 2003; for the average family or household, an extra burden of 300 euros every month is not unlikely.

The Green Party coalition partner of Schröder's Social Democrats wanted to go for even deeper cuts in the social and labor market budgets: They proposed to postpone the promised modest increase of the pensions in 2003 by six months, further "deregulate" labor laws, and cancel state support payments to the coal-mining and shipbuilding sectors. At the same time, the Greens proposed increased funding of insane "alternate energy" projects like solar cell and wind energy development, more nature protection parks, and an end to inland waterway construction. Increased taxation of consumed heating oil and natural gas was also proposed.

The Greens thereby just proved, once again, to be monetarism's strongest battalion in German politics. By backing Eichel in his struggle to smash anti-austerity sentiments among Social Democrats, the Greens helped shift the balance in the Cabinet towards more budget austerity.

Grim Year Ahead

All this is just prelude to what Germany must expect for the coming year, with even bigger tax revenue holes to be filled, more jobs eliminated by increased corporate defaults, less export revenues from shrinking global markets for German industry, and the effects—not only on crude oil prices—of the potential outbreak of a dual war in the Middle East and the Persian Gulf.

The real alternative to this development is what Helga Zepp-LaRouche, leader of the LaRouche's movement in Germany, has outlined in her "Open Letter to the Chancellor" circulating nationwide. There, the Chancellor (and the electorate) is told that unless he returns to national banking-style arrangements for public sector investments, infrastructure development projects, and generation of productive credits, there will be no way out for the depressed German economy, no chance of reducing the national jobless figure.

Especially because Germany is a leading export nation, the only meaningful approach to industrial recovery lies in the Germans' active role in the Eurasian Land-Bridge development. As the response of many Social Democrats and labor union members to the Open Letter, at political events and protest rallies, has shown, there is increased interest in this alternative. If the Chancellor listened less to the budget-cutting Greens, and more to his own voter base, the German economy would be in better condition to resist the coming storms of 2003.