

market as “short-selling.” Short-selling is a speculative technique where investors buy a stock at a price in advance, betting that the price will drop, and then cashing in when the price does drop. Now the Japanese government wants to tighten the screws especially on short-selling speculators who manipulate the market by spreading rumors that cause the price of a specific stock to drop. This technique was used by foreign investors on the Tokyo Stock Exchange, who targetted already fragile Japanese bank stocks, using rumors to ensure that their short-selling position came about. In effect, the Japanese, even if they wanted to reorganize their banking system in an orderly fashion, could not do so under the constant threat of speculative short-selling techniques.

Notwithstanding the short-selling, rumor-mongering, and other psychological warfare techniques, the Japanese banks are still in deep trouble and the real economy is hurting badly. Top Japanese banks are seeing their credit ratings downgraded, and corporate bankruptcies are at an all-time high. Most significant, the benchmark of the physical economy, machine-tool production, fell 16.3% in September compared to last year. Japanese machine-tool makers received fewer orders for the seventh straight month as manufacturing cut capital spending in the midst of the “deepest recession” in more than 50 years, according to figures released by the Japan Machine Tool Builders Association. In fact, domestic machine-tool orders for the same time period dropped 34.3%.

A New Bretton Woods

High-level Washington sources have told *EIR* that there is an ongoing debate behind the scenes about the future architecture of the global monetary system. Essentially, there are two U.S. groupings who are battling it out on the issue of a New Bretton Woods system. The first group generally agrees with LaRouche that a new system is needed before there is a complete collapse. The other group believes that tinkering with the system could itself lead to a blowout of the financial system. Reportedly, Federal Reserve Bank Chairman Alan Greenspan is deathly afraid that any radical measures against hedge funds and their banking supporters would trigger a collapse, and therefore wants to keep the present system alive.

Part of this debate also centers on the role of Japan. In this regard, many Clinton administration figures and bureaucrats believe that a Japanese-led recovery of Asia could begin to turn around the global economy. Although this group sometimes disagrees with Greenspan, they believe that any radical restructuring along the lines of a New Bretton Woods would be dangerous. The grouping that supports a New Bretton Woods believes that what the Japanese are trying to do is too little, too late to stem the inevitable. They would like to see a New Bretton Woods conference held, so that a new global monetary system could be established before the inevitable occurs.

Interview: Chalmers Johnson

IMF, Federal Reserve discredited in Japan

Chalmers Johnson is a professor at the University of California at San Diego. He is an “Asia hand” who has been a strong critic of Japan and of U.S. Asia policy. While his views represent a faction of the U.S. establishment, he is accurately reflecting the thinking behind the current policy debate in Japan. He was interviewed by Kathy Wolfe on Oct. 2.

EIR: What will happen to Japanese banks after the failure of Long Term Capital Management (LTCM)? And, what is your view of Finance Minister Kiichi Miyazawa’s statements on exchange controls and the \$30 billion Asia fund?

Johnson: Miyazawa’s \$30 billion fund is the most important thing that has happened in Asia in a year. He is resurrecting the Asian Monetary Fund [AMF]; Ministry of Finance officials have been quoted in the Japanese-language press this week explicitly saying that East Asian currencies will no longer be allowed to collapse, and that this money and more will be used to see to that. Japan’s actions on this, and their careful raising of the subject of exchange controls, go straight with [Malaysian Prime Minister Dr.] Mahathir: They both have general contempt for globalization, and are making a sort of declaration of independence against the IMF [International Monetary Fund] and globalization. They are tired of the IMF running Asia into the ground.

Two major recent events, the crack-up of Russia and the LTCM bailout in New York, have shown the IMF and the Fed [U.S. Federal Reserve] to be total and complete failures. Globalization and the new world order, or whatever they call it this week, just died; it’s deader than a doornail. The Japanese elites are increasingly concerned that the IMF, the Fed, and the Americans don’t know what the hell they are doing with the global financial system, and thinking, “We’ve got to somehow protect Asia from the coming disaster.” They are preparing for a global crash which lets the air out of the lone superpower, coming fairly quickly.

The Japanese tried to stop the Asia crisis a year ago by proposing the AMF, but Larry Summers killed the AMF and put down [Vice Minister for International Financial Affairs Eisuke] Sakakibara last November. Sakakibara told Summers, “Well, so you turn it over to the IMF—the IMF won’t be able to handle it.” And now everyone agrees that Sakakibara was right and Summers was wrong.

What's more, in Miyazawa's press conference where he made the \$30 billion offer—this is being blacked out of the English-language press—he also said he is collaborating with the Chinese, and wants to get them to put more money into the fund. And, as you know, the Chinese, as well as Japan also, have more than \$200 billion in foreign reserves now.

Most of the money will be used to save Indonesia, immediately. The IMF has made a royal mess there, destroyed the place completely, and the Japanese and Chinese are furious about it. The infrastructure which the Chinese-Indonesians built up over 30 years has been totally destroyed, and it will take years to rebuild it; without them, Indonesia has no banking system. The IMF and Fed go on talking about “crony capitalism,” and then we see who the real cronies are in the LTCM mess with the Fed [bailout]. David Sanger today in the *New York Times* points out that one thing wrong with the IMF, is it's run by U.S. PhDs who have no idea of Asian or other foreign cultures. Now the LTCM bailout has only made this really obvious—how stupid and how incompetent the PhDs are.

Another reason this is a breaking point: Japan has now realized that they can't export to the United States as their way out of a crisis of this magnitude. Greenspan is totally discredited by the hedge fund crisis; for a man to call for the end of crony capitalism, more transparency, and now this—Japan now totally believes this guy doesn't know what he's doing! The Japanese are very famous for their stoicism and ability to be patient under the yoke of things like globalization, but when others don't also take their licks, they are quicker to explode at the unfairness of that than anyone. And now, here comes the Fed, cheating on everyone.

EIR: You've mentioned Japan, Malaysia, China, and Indonesia all together. Are you saying that the Asian nations expect a global crash and are desperately planning some sort of Asian perimeter economic defense mechanism?

Johnson: Yes. China has got the market, Malaysia and Indonesia have the raw materials, Japan is still the richest nation in the world—just add it up. The Chinese have been delighted about this Miyazawa proposal. From the day the financial crisis began, the Chinese have realized that they were the potential victors of this, in that it would discredit the IMF and the globalization people in Asia.

There's no problem with investor confidence in Malaysia by Japanese investors! They are perfectly happy with what Mahathir has done. Suharto fought in the Japanese Army, against the Dutch, and some of these people are real old-time anti-colonialists.

Most of the \$30 billion will go to Indonesia, and it will go directly toward trade. By not frontally confronting the IMF this time, the Japanese can just go at it and not get into doctrinaire confrontation.

But, Miyazawa has made it clear that his commitment is not to “economic reform” à la IMF/Russia, but to solvency and restarting the economy. There is unanimity in Japan today that the Asia crisis was not caused by crony capitalism; it was caused by newly rich countries like [South] Korea and Thailand following lousy Western advice to deregulate precipitously without understanding what they were doing, and then borrowing huge amounts of hot money without understanding what they are doing. They believe Korea should never have gotten rid of their Economic Planning Board.

EIR: You would put this together with the recent proposal by Japan's ambassador to Korea for a free-trade zone between the countries?

Johnson: Of course. Globalization just bit the dust. The Japanese papers, both the left, e.g., *Asahi*, and the right, e.g., *Yomiuri*, all reported this week that this was Miyazawa's way of saying that we have no more interest in what Summers and Greenspan have to say—LTCM discredits their talk about crony capitalism—and it's our time to declare independence. This \$30 billion will not go to finance U.S. Treasury debt.

[This is] yet another reason why the new U.S.-Japan defense guidelines are not going down well in Tokyo, aside from the negative Chinese reaction.

EIR: The famous 1997 Clinton-Hashimoto joint defense agreements?

Johnson: Yes; they will never be ratified. The agreement is stuck in both houses of the Diet [Japan's Parliament]. Do you remember Prime Minister [Morihiro] Hosokawa? He's not some playboy; he's a member of the elites. He keeps publishing essays on this.

EIR: Isn't he the grandson of Prince Konoe?

Johnson: Yes, the old Fujiwara clan. Hosokawa's views reflect not just a rich playboy, but the noble families, the elite of Japan. The elites are increasingly concerned that the Americans don't know what they are doing with the global financial system, and are thinking, “We've got to distance ourselves.”

EIR: I mention Konoe because you mentioned China, Malaysia, Indonesia, and Korea all in on this. These days, with China and the others, the Japanese wouldn't have to “strike south” to put together a market and a source of raw materials.

Johnson: Sure. These are the people who sent the Emperor to China, and the Gaimusho [Foreign Ministry] is doing everything possible to advance relations with China. There's no so-called China threat. They believe in fact China is moving in a peaceful direction. That's why neither of the Diet houses will pass the Clinton-Hashimoto defense guidelines. They've given the key Diet committee on Okinawa

to be run by a communist, and so, forget it. Actually, the JCP [Japanese Communist Party] is very interesting, too; they're controlled by another section of the elite.

EIR: But won't Japan blow up if they don't solve their own banking disaster? And won't there be a social explosion if they give taxpayer money to bail out the banks?

Johnson: Yes, that's why they're going to nationalize the banks, as they announced finally some of the legislation today.

EIR: They're going to have the government bail them out, like the U.S. Resolution Trust Corp. (RTC)? Or, real nationalization?

Johnson: One, nationalization Japan-style. LTCB [Long-Term Credit Bank], Fuji, and a half-dozen more banks will be nationalized, and they will send in the Ministry of Finance. They will fire the private-sector bankers, sell any good assets, and put the banks under state management. The real sticking point of the Japanese public is *not* that they don't trust the Ministry of Finance; it's that they don't trust the damn private banks. The Ministry of Finance can stay in power because they are the champions of the graying Japanese population, which does not want to get everyone into debt with fiscal stimulation; this is far more popular than Washington's view, to spend and consume.

EIR: I thought that the Ministry of Finance was scandalized, and is now being replaced by this new banking commission.

Johnson: That's for *gaijin* [round-eye] consumption. The Ministry of Finance has made some serious mistakes, but they have survived all the scandals. They handled it the usual way: two suicides, fired the Finance Minister, and got new ones. But, it didn't affect the power of the Ministry of Finance one iota. One friend told me recently, "We're not going to abolish the Ministry of Finance and turn it over to the most corrupt parliament on earth, any more than you are going to abolish the U.S. Navy because of corruption. Our job is to reinvigorate the Ministry of Finance." That is the genuine Japanese elite thinking on this subject. The Ministry of Finance remains the best intrinsic meritocracy the society can produce.

Two, once they've fired enough private bankers, the Ministry of Finance will announce that all depositors will be paid.

Three, they will have to use some public funds to recapitalize the banks, but they will not be able to do what we did with the RTC—just take the money. There will have to be an enormous public reckoning before this can occur. The history of public funds being abused in the 1930s is so deep, that it will be impossible for the Ministry of Finance to do, without making very extensively clear to the public why. They will say that they sure as hell are *not* going to do it the way the Fed did it in the LTCM case.

First, there will have to be a public humiliation of the private bankers at great length.

Second, there will also have to be an open pulling by Japan of money in from abroad—they will have to show they have mobilized all possible resources. They just didn't feel they could do it before in the face of U.S. criticism that Japan was not behaving in a responsible Nobel Prize economists' manner. Now, Russia has cracked and shown the IMF to be a total failure, and LTCM has shown the Fed to be a total failure, and all the Nobel Prize economists with it.

They may also have to go for general elections, and let Naoto Kan and the Democratic Party come in, and the LDP [the ruling Liberal Democratic Party] may be ruined. It may take that kind of an uproar, before they can recapitalize the banks.

EIR: Kan is a media creation.

Johnson: You have a point, but if they do this, it will be Kan acting on behalf of the noble families of Japan. Kan was a fake and a lefty media creation, but now he is being steered by the elites, the noble families. He is really saying, and the LDP has now agreed, to actually nationalize the banks, to change the *management*—and then they will use the tax funds. This is the device. They will actually nationalize the banks, but in a Japanese way.

Don't forget Hatoyama, who's the co-founder of Kan's Democratic Party; he's from the Ishihashi family, which ran the Japanese tire industry since World War I. He's part of the pre-war elite.

They are also encouraged by [Social Democrat Gerhard] Schroeder's win in Germany.

EIR: Once they nationalize and recapitalize the banks, then what? Go back to business as usual, like our S&Ls?

Johnson: No. They will then go back to MITI [Ministry of International Trade and Industry] methods: directed lending, window guidance, industrial policy.

Not only that, but this is what they want to do in Indonesia and in other countries where the financial crisis is melting down the banking systems. So, they are going to put Indonesia back together on a MITI basis.

Look, the real problem in Japan starting in 1989 was the death of the Emperor, not the collapse of the bubble. Before that, people believed they acted for the country. [Emperor] Akihito is a pacifist married to a commoner, and that has caused a demoralization of the elites.

The one thing which made me think the Japanese elite can still work was the Miyazawa appointment.

EIR: He's not just a bankers' toady of Kabutocho, Tokyo's Wall Street.

Johnson: No, he's going to nationalize, and this \$30 billion is the AMF all over again.