Tokyo 'Just Trying To Reach the End of March'

by Kathy Wolfe

Japanese Prime Minister Junichiro Koizumi, his government failing, unveiled an "anti-deflation" package on Feb. 27 with no new economic content. It contained a pledge to bail out failing major Tokyo banks, but only "if they are threatened by a crisis"—as though this enormous crisis were not already exploding. Not acting, the Koizumi cabinet demanded instead that the Bank of Japan (BOJ) implement "bold new" measures, specifying the International Monetary Fund's "inflation targetting" scheme. Under it, the BOJ would be obligated to print an unlimited amount of cash "until prices rise in Japan"—which will take forever under current incompetence—allowing Wall Street to borrow enormous sums in Tokyo to bail out tottering U.S. banks.

In fact, the government announced on March 1 that Japan's Consumer Price Index had fallen a full 1.4% in January, putting the price deflation collapse for the last six months at a 6% annual average. Crashing prices mean industry isn't buying raw materials, and consumers aren't buying anything; and sure enough, industrial production fell another 1% in January from December. Retail sales fell 4.7% in January, the tenth monthly year-on-year decline, and construction orders received by Japan's 50 top contractors fell 14%.

Desperate officials made a faked "seasonal adjustment" in order to announce on March 1 that Japan's jobless rate was down to "only" 5.3% in January, from 5.6% in December, but in fact the total jobless number rose for the tenth straight month, with 440,000 more workers leaving work.

BOJ Gov. Masaru Hayami publicly refused to adopt "inflation targetting" and its infinite yen printing, but the Bank did increase monthly purchases of Japanese government bonds (JGBs) by 25% to 1.0 trillion yen ($7.5 billion) for the package, pledging to inject that much more cash into the markets each month.

The U.S. Federal Reserve and Treasury "strongly requested" the Japanese government undertake a big bailout of the banks during President Bush's Feb. 17-20 Tokyo trip, officials said. The Wall Street-run Tokyo press is demanding this loudly, but Hayami is against a replay of the failed $100 billion bailout of the banks from 1998, officials told *EIR*.

One official said that Japan was trying, now, simply to get to the end of its fiscal year on March 31, without a 1929-style crash. "We made our policy moves in consideration of how to get through the end of the fiscal year, not because the government asked us to," Hayami said on March 1, speaking of the 25% increase in cash.

EIR Proposals Are the 'Only Way Out'

Financial Services Minister Hakuo Yanagisawa made it clear, when testifying on the package before the Diet (parliament), that the government will do anything to hold the Tokyo Nikkei stock index above the 10,000 mark until banks and other companies close their books for the year March 31. Yanagisawa said that the ministry had run simulations, and believes that if stocks maintain 10,000, most banks and industries, which hold stocks as capital, should legally not be bankrupt, in accounting terms. Then, the logic goes, Japan has until March 31, 2003, to cook up the next desperate fix.

Tokyo's older and saner heads do realize that this is foolhardy, and certain voices at the Ministry of Finance and BOJ are already forcing other steps.

The Feb. 28 package did contain one important, necessary political action, demanded by the Finance Ministry and BOJ, and distinguished from the rest of the plan. Japan's Financial Services Agency (FSA) harshly penalized four top foreign brokers in Tokyo—Crédit Lyonnais, Bear Stearns, Deutsche Bank Securities, and Citibank Nikko Salomon Smith Barney—for illegal "short selling," i.e., massive dumping of major Japanese stocks. More such penalties were promised in the new package. Goldman Sachs was earlier suspended from Tokyo trading for such lawbreaking. Just as George Soros and other "rogue hedge funds" deliberately dumped Asian currencies in 1997, later buying up Korean, Thai, and other firms at 20¢ on the dollar, these "rogue brokers" are a big factor in the 30-50% stock collapse of Japan's major industrial companies and banks, which they want to buy.

The FSA action outraged Wall Street and London. "This is a market support package, not an anti-deflation package," complained Commerzbank Securities economist Ron Bevacqua, a former Merrill Lynch official who often speaks for Wall Street. "There's a degree of suspicion that it might not be a particularly free-market response," said a spokesman for the Anglo-Dutch ING Barings bank.

Japan needs a lot more such attacks against "free-market fundamentalism." "Japan's only way out is to do what *EIR* has proposed," former Bank of Japan director Akira Nambara said on Feb. 26, to point out—as Democratic Presidential precandidate Lyndon LaRouche had in his Jan. 24 webcast—that "it's not a 'Japan crisis,' but a global crisis in which the entire global, dollar-based, post-1971, non-system is fundamentally broken." Nambara said that LaRouche is right, and that Japan's leaders should state publicly that the IMF is morally and financially bankrupt, and a New Bretton Woods conference is urgently needed.

Nambara denounced a secondary proposal in the government's package, for the banks to sell loans to Japan's Resolution and Collection Corp. at "market value." He called it a useless joke, since the "market values" have been speculated down by Wall Street shorting.