

Japan Is at War With Itself

by Kathy Wolfe

Following Japanese Premier Junichiro Koizumi's April 21 visit to Tokyo's Meiji-era Yasukuni war shrine, the outcry was sharp, from Chinese President Jiang Zemin and Korean President Kim Dae-jung on down. But our headline does not refer to a military war in Asia, at least not yet. Koizumi's action is typical of a war of paradoxes going on inside the Japanese elite. On one hand, the resistance to Wall Street and the International Monetary Fund's demands, to destroy Japan's industrial base, is high in certain quarters, and some realize that opening new trade vistas with the Eurasian Land-Bridge nations is the only way out. On the other, Koizumi and his economics team continue to promote IMF policies which will gut Japan's industrial base, while going out of their way to alienate the rest of Asia.

Japanese Infrastructure Minister Chikage Ogi announced on April 26, for example, that the Construction Ministry is writing a 100-year blueprint for the nation's infrastructure, a competent concept unheard of in the "shareholder value" mentality dominating Western nations. The Ministry of Land, Infrastructure and Transport (MLIT) now has ten long-term public works projects planned, eight of which will be completed in fiscal 2002. Yet, on the other hand, the Harvard-educated Economics Minister Heizo Takenaka stated on April 22 that public works must be cut by 30% over the next five years, from 30 trillion yen (\$230 billion) to Y20 trillion (\$153 billion). Japan has continued to build high-speed bullet trains, water, and electricity projects, extending to every corner of the archipelago, but under Koizumi, such activity has been politically scandalized, using the theme "construction is corruption."

Finance Minister Masajuro Shiokawa, after sharply attacking the IMF in mid-April for "meddling in Japan's affairs," has announced a war of letters, which the Ministry of Finance (MOF) is sending to Moody's, S&P and other Wall Street rating agencies, protesting their threats to lower Japan's Government Bonds (JGB) rating again (below that of Bo-

tswana) in mid-May. The MOF has also announced new restrictions on Wall Street "short selling" of Tokyo stocks and is reining in margin lending.

And what of the Japanese banking crash, which Wall Street opinion-makers insisted was due, when deposit guarantees for long-term bank deposits were removed on April 1? Instead of collapsing major Tokyo banks, as the American Enterprise Institute loudly forecast, the removal actually caused huge amounts of funds to flow from long-term accounts all over Japan, *into* short-term deposits in Tokyo's top seven banks. Again the MOF faction committed to defending the country against foreign attack, has created a highly short-term bailout which will stave off disaster perhaps weeks or months, but is not viable.

Defensive and Incoherent

Patriots in Japan have no coherent positive policy, and are flailing in their attempts to keep the collapsing giant of the global IMF monetary system from stepping on defenseless Japan. Without a positive policy, such as Lyndon LaRouche's program to build the Eurasian Land-Bridge, already being taken up in Korea, Japan's economy can not survive, and with another kind of nationalism also growing, a new war in Asia can not be completely ruled out. As the *Nihon Keizai News* editorialized on April 22, "Spring 2002 Brings Echoes of Spring 1938." In 1938, it says, Spring came very early and it "coincided in time with the trampling of the framework of peace" as Germany went to war. "The uneasiness . . . of 1938 can be felt again in the Spring of 2002." Japan's top financial daily never specified what it meant in this highly abstract commentary, but the title says enough.

Japan's elites, meanwhile, are very much aware of the vulnerabilities of the United States in this situation. "Weak Dollar Predicted" was the Nikkei headline on April 25, in which Ryuichi Atsuta at the Tokyo branch of Bank of America, said that over the next month the yen is likely to

keep strengthening. “There are negative factors surrounding the dollar,” Atsuta pointed out. “The view of Tokyo that the U.S. stock market and economic conditions there are not as bullish as was earlier believed, is spreading. . . . The rising U.S. current-account deficit will prompt investors to sell the dollar.”

Asian diplomats say there was a major fight at the just-concluded IMF annual meeting in Washington, about putting warnings against “the rising U.S. current account deficit” in the communiqué, which the United States refused to allow. At the IMF press conference on April 21, French Finance Minister Laurent Fabius—like American Congressmen at hearings since—openly differed with U.S. Treasury Secretary Paul O’Neill on this. After O’Neill said the U.S. deficit was not important, Fabius declared that, *au contraire*, it most definitely is a “threat to world currency stability.” Japan’s delegation strongly supported the French view, *EIR* was told.

“Japanese Finance Minister Masajuro Shiokawa Is Fed Up,” headlined Nikkei’s coverage of the MOF’s plan to dress down Moody’s Investors’ Service and other Wall Street raters. “Tired of being told by foreign credit ratings agencies that Japan’s economy is in the dumps, its financial system is shaky and that the government’s fiscal deficit is unsustainable, Shiokawa, and his ministry, have decided to fight back.” The Finance Ministry is currently preparing letters to the three major ratings agencies—Moody’s, Standard & Poor’s, and Fitch Ratings—asking them to justify their recent decisions to downgrade Japan’s bond ratings. “When you think of the responsibility that the yen has, in being one of the world’s major currencies, we can’t allow for ‘impulsive’ ratings decisions,” Shiokawa said. “I want to know if they are taking into account the fact that Japan is the world’s largest creditor nation . . . or the fact that we have abundant foreign exchange reserves.”

Thomas Byrne, vice president and senior credit officer of sovereign risk at Moody’s, told Dow Jones on April 26 he was “fairly certain” his agency would announce its decision by May 13 on the “below Botswana” issue.

Short-Term ‘Hyper-Bailout’

Unfortunately, the situation in Japan gives the Moody’s gang a lot of room for their nasty doings. Japan’s April 1 deregulation of deposit guarantees has temporarily caused a short-term “hyper-bailout” in which large masses of money are moving chaotically into the major banks, and interest rates have collapsed to zero even in the private banking system. But money this “hot” can flow somewhere else on a minute’s notice. Japan’s public believes that the government will treat the Big Seven banks as “too big to fail.” So the deregulation action has sent them all running to the largest banks, bailing out those banks, the bank stocks and thus the Nikkei stock index.

Ironically, the Japanese press since April 1 has been filled with stories headlined “Money Pours Into Overnight Ac-

counts”; “Banks Cut Interest Rates To Avoid Deposit Pile Up,” and so on. Short-term deposits by individuals at the five largest Tokyo banks rose by Y11 trillion (\$85 billion) in the last 12 months to Y43 trillion (\$330 billion), a rise of over 22%, the Bank of Japan reports. Short-term deposits in all banks jumped Y40 trillion (\$308 billion) during that time. The proportion of short-term to total deposits rose to over 40% in March, up from 30% a year ago. Consumers also yanked cash out of money market funds, which dropped over 21% in the same period, because with their bonds issued by Argentina and Enron Corp., they are worth less than investors paid for them.

Japan’s largest banks are now cutting interest paid to depositors to keep them away. The three largest bank groups—Bank of Tokyo-Mitsubishi, UFJ Bank, and Sumitomo Mitsui—just lowered their annual interest rate on short-term deposits from 0.02%, to 0.001%, effectively zero. The banks can’t use the funds because they have no one to lend to, and meanwhile the Deposit Insurance Corp. just raised the premiums that banks must pay on deposits—so banks don’t want them.

The April 1 deregulation also caused massive funds to flow into Japanese Government Bonds (JGBs)—the same bonds that Moody’s is threatening to downgrade—into Tokyo real estate, and into the Postal Savings System. Total JGBs held by the corporate sector doubled over the past year to Y1.5 trillion (\$12 billion), said a Bank of Japan survey. In the first two months of this year, corporate monthly net purchase of government corporation bonds topped Y1 trillion every month. Corporations also shifted funds totalling more than Y10 trillion (\$75 billion) out of money market funds, into JGBs. “Government bonds are currently the only safe financial instrument in which we can invest surplus funds,” says an official at a machinery maker. Meanwhile more than 30% of personal savings have been put in the Postal Savings System, growing at the rate of \$50 billion a month and now at Y240 trillion (\$1.9 trillion).

So far, the weakening dollar has prevented the real “Big Dam” from breaking: The Japanese population has been unwilling to venture beyond home ground and dump yen assets. But this could change in an instant. Deposits at Japanese branches of foreign banks have also reached a record Y10.5 trillion, up 32% from a year earlier, according to the Bank of Japan.

Physical Economy Threatens To Go Under

Meanwhile, in the policy vacuum, the real economy, and industry in particular, are collapsing, with six major construction companies announcing massive losses for the fiscal year ended March 31. NEC Corp., Hitachi, Matsushita Electric, Fujitsu, Toshiba, and Mitsubishi Electric announced over \$15 billion in combined losses in late April, as companies all over the globe slash capital spending on equipment. The six have laid off over 85,000 people, 5% of their workforces, shut

factories, and closed unprofitable businesses. Physically speaking, this threat that major Japanese industrial firms will go under, as major industrial concerns in Korea such as Daewoo and Hyundai have done, is far worse than the net loss of ¥4.1 trillion (\$31.5 billion) announced in mid-April by the Big Seven Japanese banking groups.

Deflation of the physical economy is accelerating with the Consumer Price Index falling a full 0.8% in fiscal 2001 to March 31 from a year earlier, the fourth straight year of decline for the first time in the postwar period, the Public Management Ministry reported on April 26. And with unemployment continuing over 5%, the unprecedented sight of homeless people has begun to appear in major Japanese cities. Some 300 homeless people from Tokyo and Osaka marched to the Diet (parliament) on April 26, to press for the early passage of legislation to provide relief to an estimated 30,000 homeless people across the country. The marchers chanted, "Pass the legislation" and "Give us jobs."

In Japan, that is the beginnings of civil war, unless something is done soon. Perhaps it's not too soon to warn of the 1930s.

Interview: Greg Blaska

U.S. Farm Law Won't Stop Imports or Meet Costs

Greg Blaska, of Sun Prairie, Wisconsin, was interviewed April 26, the day of the release of the Congressional Conference Committee agreement on a draft new farm bill. Blaska is a longtime farmer and dairy sector leader, serving on the National Dairy Board from 1995-2001, and active in the Wisconsin Farmers Union.

EIR: The Congressional Conference Committee has now said it has agreement on a new farm bill draft—with only minor details remaining—to replace the infamous 1996 "Freedom to Fail" Farm Act. As you know, the new bill drops the 1996 pretenses that "market forces" will save farming. But, the new bill has no policies that actually would restore U.S. agriculture.

Let's begin with your specialty, dairying.

Blaska: Well, dairy: If you follow what's happened in the



New England states, where for the past six or seven years, they had to have a compact in order to get enough income to stay in business; that has slid into the new farm bill now. And when we talk about all the Eastern farmers who are not making enough money to stay on the farm, well, this has also followed through to the Midwestern farms. Our production in Wisconsin has dropped to the lowest now in about 20 years. The reason it is dropping, is that we aren't getting a cost-of-production price for the milk.

In the old days, we had a parity program, until about 1980, when President Reagan's first official act, was to remove parity pricing for dairy. So we lost parity, and now our prices do not reflect the cost of production of milk.

Our costs go up just like any other costs of U.S. products. What we are seeing happen is, that we are in deficit about 10 billion pounds [of milk] now annually, for national production—that is, to make all the fluid milk, and cheese, and butter that we need, and ice cream mix, and all the good dairy products.

What's happened is that the free-trade zealots, who pretty much dominate now; as far as the World Trade Organization, they have allowed imported dairy products from many, many countries to enter, without a quota or tariff. They don't come in, in the form of good cheese, or fluid milk—the fluid milk market is still protected with domestic supply, but they come in as something else. In the cheese market now, one of the big offenders is one of the huge corporate international companies, called Philip Morris, which has made their whole process line out of milk protein concentrate.

EIR: You are speaking of the Kraft subdivision?

Blaska: Well, yeah, I like to say Kraft. I mention Philip Morris, because when Philip Morris took over Kraft, about 10 or 15 years ago, they changed their domestic supply issue. Then they started to be a world company, and they had to deal, the same as Philip Morris does, for only one goal in mind: to get the lowest-cost ingredients into their cheese. So what we are seeing happen, is that they were the leader in using the milk protein concentrate and entering into the process cheese lines that they have. So when you go into the convenience store, or to the supermarket, they dominate the shelf space, with foreign products. So, our domestic suppliers have to back off. They just can't sell their products, although it's better quality—and we've passed all the rigid tests for good quality milk: The competition is not that. I mean, we are getting it from India, from Poland, from Argentina, and of course, most of it comes from New Zealand and Australia.

EIR: So that's "mpc"—milk protein concentrate, mostly, you are talking about?

Blaska: That's what's balanced the market. And now, some of the ice cream makers have also tried to use it—although the ice cream industry went for a higher-quality product, after they failed, 20 or 30 years ago, to introduce a cheap product.