

A no-confidence vote for 'Japan, Inc.'

by Our Special Correspondent

The electoral defeat of the ruling Liberal Democratic Party (LDP) and its Prime Minister Ryutaro Hashimoto in the July 12 elections for the Upper House of the Japanese Diet (parliament), has created a shockwave throughout the country's establishment. Although some leading Japanese figures wanted to retain the present Hashimoto government, the Japanese population and some institutional forces clearly wanted a major change in the government's makeup.

As *EIR* Founder Lyndon LaRouche remarked at the end of June, there is a need for a complete change in financial and economic policy in Japan. "Unless Japan is ready to write off at least 80% of their bank bad debts," LaRouche said, "as well as to roll back the foolish 'Big Bang' financial deregulation measures, to take adequate currency protection, as well as to enter cooperation with China and other key nations on long-term trade arrangements, nothing now being discussed inside Japan can work."

The ruling party's unexpected defeat opens up a potentially new political constellation within the Japanese establishment. Historically, the Japanese political system has been a tradition-bound process wherein secrecy is paramount and consensus the result—for good or ill. Now, faced with the prospect that the choice of the next Prime Minister could determine whether the world financial system goes into a meltdown, the Japanese are caught up in a terrific power struggle.

According to Japanese press accounts, the two leading candidates are from the same LDP faction, and are apparently splitting apart on policy issues. Moreover, the traditional factions are all jockeying for positions in the next government,

while the younger members of the LDP are nearly in a revolt against the party elders. All of these developments portend a tough round ahead.

The two leading candidates, Foreign Minister Keizo Obuchi and ex-cabinet chief Seiroku Kajiyama, have different approaches to the financial and economic crisis. Obuchi, considered the front-runner and not a favorite of the "market forces," is backed by Noboru Takeshita, one of the "shadow shoguns" who operate behind the scenes, while Kajiyama has received support from former Prime Minister Yasuhiro Nakasone. Kajiyama is being lauded by the international and domestic market players for his call for shutting down Japan's insolvent banks. According to one Japanese source, "If Obuchi and Kajiyama cannot make a deal, there could be a major political crisis."

However, both U.S. and Japanese high-level sources have reported to *EIR* that, as we go to press on July 17, over the next few days, it is anticipated that a new arrangement could emerge out of the chaos. A Japanese source stated that "Kajiyama looks like he's prepared to work out a deal where Obuchi becomes the new Prime Minister and Kajiyama takes on the Minister of Finance portfolio." If this deal doesn't work, a third candidate could emerge who is a favorite of the younger members of the LDP, and that is Health and Welfare Minister Junichiro Kiozumi. Kiozumi, a scion of a top political family, is supported by the Mitsuzuka faction and former leading members of the Hashimoto coalition; he is considered by many to be a radical reformer, because of his proposal to privatize the world's largest financial institution, the Post Savings apparatus.



Campaigning for the elections in Osaka, Japan, June 1998. The voters repudiated Hashimoto's government; but now, will the elites draw the necessary conclusions for policymaking?

In all, there are 12 candidates, and given the complexity of the political process, it is difficult to predict the ultimate outcome.

No solutions forthcoming

From all indicators, and according to high-level sources in both Japan and the United States, none of the prospective prime ministers appears strong enough to push through a major overhaul of the Japanese political and financial system. What can be expected, according to one Japanese source, is that if Obuchi comes to power, he will surprise many observers by using his apparent weakness as a source of strength. "He may wind up offering a new policy arrangement with the United States," the source added. Obuchi will offer a "coordinated policy framework to defend the yen against currency speculators, and set up a fund with other Asian countries to support the yen." In addition, some people behind Obuchi want a "strong yen and a near-fixed exchange rate" between the yen and dollar. Obuchi is "more inclined to seek a government-to-government solution than allowing the market to determine the yen's value," the source commented.

Kajiyama, on the other hand, said the source, is willing to play the market game and shut down insolvent banks without any political considerations.

On the U.S. side, the Clinton administration is clearly

worried. If none of the proposals that Japan has promised to implement goes ahead, the entire U.S. crisis-management approach will indeed be shown to have been a failure. Clyde Prestowitz, president of the Economic Policy Institute, told Reuters on July 14 that "Asia is teetering on the brink of disaster; getting Japan turned around is awfully important."

Hashimoto was doomed

For the last several months, the Hashimoto government had been under enormous pressure from the Clinton administration to change its policies. The administration has been telling Japan to take care of its internal debt, to develop transparency rules for how much debt there really is, and to set up a plan for removing the bad bank debt, modelled on the Resolution Trust Corp. in the United States. (The RTC "solved" the 1989-95 crisis in the savings and loan institutions by bankrupting the S&Ls, reducing their number by half, and shifting consumer deposits to the big Wall Street banks.) Moreover, U.S. officials demanded that a massive financial stimulus package be implemented.

It was this pressure that virtually assured Hashimoto's demise. His coalition was a bundle of contradictions with no consistent policy outlook. Fiscal monetarists, strong-yen advocates, and Keynesian-style advocates of government stimulus measures all resided together, yet disagreed on everything. Only a small minority faction pushed the idea

advanced by Lyndon LaRouche for setting up a New Bretton Woods system, to reorganize the bankrupt global financial system and restart world trade and production. Following a statement at the World Economic Forum in Davos, Switzerland by First Lady Hillary Clinton, on the idea of a New Bretton Woods system, Japanese officials began openly voicing the possibility of setting up such an arrangement. Vice Minister for International Financial Affairs Eisuke Sakakibara issued a statement in May, that a New Bretton Woods may be needed to reform the present monetary system.

Overtaken by events and the global nature of the crisis, the Hashimoto government was ill-equipped to handle these developments. Hedge funds' and currency speculators' attacks on the yen overwhelmed the Japanese. Just prior to these developments, the Hashimoto government had implemented

a harsh austerity package, including a massive consumption tax increase, in order to prop up a failing banking system. The Hashimoto formula of budget austerity, increased liquidity to the banks, and a strong yen completely backfired. Not only was the Prime Minister unable to write down the bad bank debt, but when his "Big Bang" deregulation went into effect on April 1, a huge amount of capital and savings left Japan seeking higher earnings on investments and deposits. This capital flight, coming at a time of a major political crisis, allowed the international speculators an opportunity to wreck havoc inside Japan.

As the crisis worsened daily, popular anger against Hashimoto's government coalition grew. This anger was amply demonstrated by a voter turnout larger than expected. Nearly 60% of eligible voters cast their ballot, surpassing the turnout in the last election by 15 percentage points. While the LDP lost 17 seats, some opposition parties, including the Japanese Communist Party and the newly formed Democratic Party of Japan, garnered huge gains. Last April, Minoru Morita, a leading commentator, published an article calling for the resignation of Hashimoto, reflecting the fact that powerful behind-the-scenes figures such as Nakasone had made the decision to dump him.

LaRouche warns Japan

Lyndon H. LaRouche, Jr., in a feature article in last week's EIR, "Where Franklin Roosevelt Was Interrupted," had this to say about the crisis in Japan, which has now burst out into the open:

The obsessive fixation upon "crisis management," which grips the deluded government of Japan, the IMF, and many others, is, itself, presently, the most immediate, single threat to the world economy. . . .

The case of Japan's suicidal flights forward exemplifies the leading source of the "bail-out" lunacies which continue to grip the governments of Japan, the U.S.A., and others. As a senior figure of Japan pointed out, sadly, there will be no return to sanity in Japan's policy-making until the presently dominant financial-political forces in Japan, merely typified by the Hashimoto government, eliminate themselves from the scene by the inevitable consequences of their own folly. Thus, in similar fashion, did the fabled Belshazzar prepare the way for the transition to Mesopotamia's Achaemenid dynasty. The presently ruling circles in Japan do not give a damn for the economy of Japan, or the savings of its ordinary citizens; for the ruling financial-political circles, it is the political and financial power of their faction which constitutes their perceived self-interest. Until that "class" is eliminated from power, there is no hope for sanity in Japan's policy-making, or the policy-making of any nation presently in an analogous situation.

Japan's decision-making

For years, the politicians of the LDP, the dominant party, cared little about policymaking. Politics was driven by budget decisions made by Finance Ministry bureaucrats, who allocated funds to the Construction Ministry for public works projects, much in the same manner as the old Chicago Democratic Party machine of Mayor Richard Daley.

With the explosion of scandals surrounding the Ministry of Finance, and constant investigations into its activities, the traditional power center shifted away from the bureaucracy to the Prime Minister's office. The finance mandarins were now subordinate to the politicians—an event unheard of in Japan. This formal exchange of power, however, did little to address the fundamental crisis facing Japan.

With the prospect of a global depression being blamed on Japan, many Japanese establishment forces began to recognize the need for substantial change. But when Hashimoto could not put together a strong coalition, the "warring factions" based on "clannish loyalty" overwhelmed the decision-making process.

The growth of clannish factionalism can be traced to a decision made 15-20 years ago, when the traditional, production-based alliance of industrial corporations, trading companies, and politicians allowed their financial institutions to become more dominant. Under the new arrangement, the Ministry of International Trade and Industry lost considerable power to the Finance Ministry, which had become a bastion of monetarism. Although some key individuals within the bureaucracy understood that this shift, both internationally

and domestically, toward this “globalization form of monetarism,” meant that Japan’s productive base would increasingly be weakened, they were essentially powerless to change the situation.

As a result of this transformation, the traditional partnership among the politicians-bureaucracy-business fell apart. With the external pressure becoming greater and greater on Japan, the resistance to change became more a problem of inertia. Only a major crisis could force some fundamental change. Now the question is whether this change leads Japan into becoming a new “Venice of the East,” where financial power exerts itself to subordinate other nations through debt collection and International Monetary Fund conditionalities, or Japan begins to become a nation-state, where policies are guided by a quest for economic development in full and equal partnerships with those countries devastated by the present collapse. One of the critical tests for Japan is how it responds to the new emerging partnership between the United States and China, following President Clinton’s successful, if limited summitry.

The euro seduction

The “Venetian model” has gained some currency among sections of the Japanese elites. The Mitsubishi “clan” has been lured into seeing themselves as the cutting edge of this trend. The merger of the Bank of Tokyo and the Mitsubishi Bank, forming the Bank Tokyo-Mitsubishi, is a reflection of this current. Now, these forces are looking at the emergence of the new European single currency, the euro, as the alternative to the United States and the dollar. These Japanese factions still dream of reviving a yen currency bloc to join the euro against the dollar.

At a recent meeting in Tokyo of the Bank of International Settlements and Asian central bankers, European spokesmen openly called for the euro to be the chief competitor to the dollar. It is now being discussed as an alternative to a New Bretton Woods policy, where it would be the centerpiece of closer cooperation with the United States and other Asian, African, and Ibero-American countries.

How the new government and Japanese policymakers respond to the deepening crisis could determine whether the world tumbles into a full-blown depression. Both the United States and Japan face the prospect that the present monetary system is unsustainable. There is no way to save the speculative bubble driving the so-called “global and emerging markets.” Discussions of a new “financial architecture” have been woefully inadequate to deal with this crisis.

Now, Japan has a historic opportunity to join with other Asian nations, including China, India, and Russia, to demand that the United States push ahead for a New Bretton Woods system.

If Japan fails, so does the United States, and so does the world. There is no escape from this reality.

Genocide in Kosova goes unchallenged by NATO

by Umberto Pascali

“NATO must intervene immediately with military action inside Kosova. . . . President Clinton please remember what you promised [Kosova] President Ibrahim Rugova: that you will not allow a new Bosnia! Time is running out.”

Feride Istogu Gillesberg made this emotional appeal to President Bill Clinton in an interview with *EIR*, after representing Kosova at the Parliamentary Assembly of the Organization for Security and Cooperation in Europe. This assembly, one of the most prestigious international forums, brought elected representatives from all over the world to Copenhagen, Denmark on July 7-10, to address how to stop the genocide being unleashed by Serbian dictator Slobodan Milosevic against Kosova. After the meeting, a delegation of the OSCE, whose 54 member-nations include the United States, left for Serbia and Kosova on a fact-finding mission.

In his speech to the conference, Reza Nikqi, the representative of President Rugova, stressed the need to stop Milosevic. The “OSCE and other international institutions must pressure Belgrade by the strongest political means. NATO must intervene with military means. Let me remind you, that this is the third military aggression which the government of Milosevic has initiated within the last decade. Therefore, no one in this assembly should have any illusion concerning what this conflict really is about,” he said. “NATO must intervene in order to stop a humanitarian catastrophe and prevent a regional conflict.”

It is clear that the eyes of the Kosovars are on the United States, as the only force that could potentially tilt the balance of the “international community” away from a suicidal policy of appeasement. At the OSCE conference, it was U.S. Rep. Steny Hoyer (D-Md.) who declared, “Never Again!”

Cabinet warfare

Unfortunately, the OSCE resolution, whose original draft called for NATO intervention, was changed by the time of the final vote, so that it called for submitting the decision for military intervention to the “explicit endorsement of a relevant UN Security Council resolution.” It will be impossible to pass any such resolution, given the already-announced opposition of Russia, which has veto-power in the Security Council. The role of the various actors in the Kosova tragedy was made clear during the debate. While the Russians, as expected, opposed even the watered-down resolution, it was