

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