

Japan's banking crisis: the global implications

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Talks involving financial officials of the G-7 major industrial countries plus 11 Asia-Pacific countries, held in Tokyo over the weekend, failed to advance any proposals to resolve the Japanese banking crisis, following last week's US-Japan operation to halt the free fall of the yen.

While a joint statement declared that restructuring involving the wiping out of crippling bank debt and the deregulation of markets was 'urgently needed,' and Japanese Finance Minister Hikaru Matsunaga declared the government would push ahead with economic reforms, no concrete measures were announced. This prompted widespread comments in financial circles that the yen would come under immediate pressure and could soon resume the downslide against the dollar which prompted the \$6 billion intervention.

Whatever the immediate fortunes of the yen, the continued failure to reach any concrete agreement on 'restructuring'--even though all sides are fully aware of the potentially disastrous consequences--indicates that contained within this issue are far-reaching and deep-seated antagonisms. In order to elucidate the nature of these conflicts it is necessary to consider some of the basic laws of the capitalist mode of production.

Capitalist production is not production for the sake of material wealth as such, but involves the accumulation of surplus value extracted from the labour power of the working class. The source of this surplus value is the vast difference between the value of the labour power of workers employed in the production process, paid out in the form of wages, and the new value that is added in the process of production.

This surplus value does not immediately accrue to those sections of capital involved in its immediate appropriation, but is divided up between the different sections of the capitalist class in the form of industrial profit to the major corporations, interest to the banks and financial institutions and rent to the owners of land.

However, the process of surplus value extraction--the basis of capital accumulation--is marked by a profound contradiction.

While the labour power of the working class is the sole source of surplus value--and hence of profit, interest and rent--the very accumulation of capital itself means that it has to produce sufficient surplus value to expand an ever-greater mass of capital. The process of capital accumulation can continue without interruption so long as the rate of surplus value accumulation continues fast enough to expand the ever-increasing mass of capital as a whole.

But at a certain point capital reaches such a size relative to the overall mass of surplus value that the rate of profit--the ratio of total surplus value to the total capital employed--begins to decline.

The consequences of the emergence of this tendency were explained by Marx as follows:

'So long as things go well, competition effects an operating fraternity of the capital class ... so that each shares in the common loot in proportion to the size of his respective investment. But as soon as it is no longer a question of sharing profits, but of sharing losses, everyone tries to reduce his own share to a minimum and to shove it off upon another. The capitalist class, as such, must inevitably lose. How much the individual capitalist must bear of the loss, i.e., to what extent he must share in it at all, is decided by strength and cunning, and competition then becomes a fight among hostile brothers.'

In other words, under conditions where the very expansion of capital has produced a decline in the rate of profit, a violent struggle opens up between the competing sections of capital to drive each other to the wall, to destroy whole sections of capital and thereby restore the rate of profit for those which remain.

It is this conflict, now being fought on a global scale between corporations and financial institutions that are larger than many national economies, which constitutes the driving force of the deepening Asian economic crisis and the sharpening tensions between Japan and the other G-7 powers.

The 'Asian miracle' itself was the product of falling profit rates which began to emerge in the major capitalist economies from the mid-1970s onwards as firms in the United States, Europe and above all Japan directed capital into the region in the search for cheaper labour and resources. For a time investment in Asia did provide a boost to profits, so much so that for the first half of the 1990s economic expansion in the region accounted for half the increase in world economic output. But by 1995 the Asian boom was starting to falter. Overcapacity was developing in industries such as cars and computer chips, while the growth of exports, which had averaged around 20 percent per annum, declined to around 5 percent.

The form of the crisis that erupted in July 1997 was a currency and financial meltdown; its underlying content was the overaccumulation of capital in relation to the available surplus value. In other words, it signified the opening of a struggle by the competing sections of capital to eliminate their weaker brethren.

It is this conflict which has formed the basis of the various International Monetary fund 'restructuring' programs in South Korea, Thailand and Indonesia. The aim of the IMF measures--the closure of banks, the imposition of high-interest rates and recession combined with the imposition of a 'free market' regime--has been the elimination of vast areas of capital.

The extent of the capital to be eliminated can be gauged from the

fact that bad bank loans in the East Asian region are estimated to be around 30 percent of GDP, constituting one of the largest financial collapses in world history. Research conducted by the Deutsche Bank has found that already 'unprecedented movements in exchange rates and asset prices have destroyed more than \$1.5 trillion of financial wealth in the affected countries alone.'

But the program of 'restructuring'--the elimination of competing sections of capital--is not confined to the former 'Asian tigers'. Its chief focus is now Japan. This is the heart of the conflict between the United States and the other G-7 countries and Japan over bank restructuring.

The total bad debts of the Japanese banks are estimated to be around \$600 billion, or close to 20 percent of GDP. According to Robert Litan, the director of economic studies at the Brookings Institute, the Japanese bad debt is six times larger than the savings and loans debt in the United States at the beginning of the 1990s.

To eliminate bad debt and restructure the banks means not only the closure or merger of financial conglomerates and financial institutions, but the sale of the assets which were financed by the loans. A measure of the capital deflation that such a process involves can be seen from the fact that the Nikkei stock market index is at 37 percent of the levels it reached at the height of the financial bubble in 1989, while property values in Tokyo are now only 20 percent of their peak value. However, the shares and assets purchased and financed by the banks are still recorded at the prices paid at the height of the financial bubble. The capital they represent has become fictitious, but the losses have yet to be written off.

The central demand of the US and the other major capitalist powers is that firms and institutions that are insolvent go into liquidation and that their assets be placed on the market at vastly deflated prices. But with all major financial institutions now laden with bad debts, the purchasers for such assets will have to be found outside of Japan.

In short, the demand that bank debt be restructured and massive amounts of Japanese capital be effectively devalued is a demand that whole areas of the Japanese economy, previously under the tight control of the government and the major financial institutions, be open to penetration by US and European capital.

As the *Financial Times* of June 13 commented: 'The effect of a financial crisis is to sort out the corporate sheep from the goats. In an Asian context it also subverts long-standing protectionist barriers. Over-investment and excessive debt have together brought about what years of international trade negotiations have failed to achieve: a genuine loosening of tightly controlled ownership structures.' This is why the issue of bank restructuring has become such a point of conflict.

The United States has made no secret of its aims. Its agenda was clearly set out in a speech delivered on March 19 by US Deputy Treasury Secretary Lawrence Summers.

Entitling his remarks 'Opportunities Out of Crises: Lessons from Asia,' Summers, who headed the G-7 push at the talks in Tokyo last weekend, made clear that the US saw in the Asian crises the means for the realisation of its long held aim of destroying the so-called 'Japanese model' of economic regulation based on control by government and national financial institutions and replacing it

with a system of 'decentralized market incentives'.

The 'financial reforms' being carried out in Asia, he insisted, were 'less about changing the short-term policy mix than they are about changing the long-term institutional environment.' It was necessary to build 'a new system of governance better attuned to the demands of an integrated modern market economy.'

He made clear that the United States had been pressing to ensure that the IMF adapted its 'policies and practices to meet the needs of a more integrated and market-driven global economy.'

The emphasis is on reducing direct public involvement in the productive sector--as, for example, in the Korean pledge to eliminate non-economic lending to industry. And it has been on opening the economy to foreign participation with sweeping trade and financial sector liberalization, both to improve the efficiency of the economy and to let long-term capital in.'

Now that whole sections of Korean capital are in the process of being wiped out and the economy is being opened up to penetration by foreign capital, attention has turned to the biggest prize of all--Japan.

But here the process of capital deflation is very much a two-edged sword. If the write-down of Japanese capital assets proceeds too rapidly, the danger is that financial institutions will be forced to liquidate their vast holdings of international financial assets, with catastrophic consequences for the world economy.

At the end of 1996, Japanese net external assets amounted to some \$891 billion, roughly equivalent to the US net external debt. Japanese institutions alone hold some \$318 billion worth of US Treasury bonds.

If this capital started to flow back to Japan, in order to shore up balance sheets at home, it would bring an immediate rise in interest rates, leading to a collapse of the Wall Street share market bubble and the onset of a global financial meltdown and depression.

The political representatives of global capital insist that the world economy must be organised according to the dictates of the market and the drive for profit. But once again the very logic of this system, which has already plunged millions of people in Asia into poverty overnight, is threatening to unleash a social catastrophe worldwide.

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[19 June 1998]

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