

Intense conflict over Japanese bank 'restructuring'

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When US Treasury Secretary Robert Rubin and Federal Reserve chairman Alan Greenspan meet with Japanese Finance Minister Kiichi Miyazawa in talks today, there are sure to be demands from the US side for an acceleration in the program of bank 'restructuring.'

The Japanese bank debt, now estimated to be \$1,000 billion, or 20 percent of gross domestic product, is regarded as the biggest single factor threatening to drag the global economy into recession.

But the issue of how to tackle the debt crisis is the subject of intense political conflict both in Japan and internationally.

The talks are being held in the midst of a deepening row in Japan over the plans by the Obuchi government to inject as much as \$7 billion into the insolvent Long Term Credit Bank as part of a plan to merge it with the Sumitomo Trust Bank and prevent its collapse.

Opponents of the proposal are demanding more information on the state of the LTCB's finances before public money is used. The opposition Democratic Party, which is calling for an end to the 'soft landing' policy for insolvent banks, is blocking the government's legislation in the Upper House as part of its attempts to force a new election.

The United States is demanding an end to the so-called 'convoy system' in which finances are used to prop up weaker banks, insisting that insolvent banks be driven to the wall.

But this program, which is supported by some sections of the Japanese ruling class, is provoking intense opposition from government supporters who maintain that insolvent banks must be given a 'soft landing' or the entire banking system will collapse.

One of the spokesmen for this point of view, Nomura Research Institute chief economist Richard Koo, maintains that Japan does not just have problem banks; it has a 'systemic banking crisis'.

According to Koo, the US demand that the market should deal with problem loans and that insolvent banks be shut down is a recipe for disaster. The state of the banking system as a whole, he maintains, is indicated by the fact that even the largest Japanese bank has a capital/asset ratio that barely meets the international standards of 8 percent.

Hiroshi Ota, the business editor of the Japanese daily *Yomiuri Shimbun*, has echoed these criticisms in a recent comment. Criticising opponents of the government policies, he said the term 'soft landing' had taken on a negative image, contributing to the decline of the yen and share prices.

'Another factor contributing to the sell-off of Japanese assets is the vanity of US dealers who claim that the Japanese government and financial authorities are incompetent. What does the 'hard landing' that they advocate actually mean?

'Does it mean that, weakened by the collapse of the biggest economic bubble in history ... big banks should end up at the mercy of ruthless international speculators and possibly be thrown out of business. That would trigger a depression--not just for Japan but for the world.'

Miyazawa expressed similar sentiments when he addressed the Diet (parliament) last week. If the LTCB were allowed to collapse, he said, the damage to the economy would be incalculable because the bank had 50

trillion yen worth of derivative contracts at the end of March. If the LTCB defaulted on these contracts, 'Japanese banks as a whole might be debarred from such transactions'.

The governor of the Bank of Japan, Masaru Hayami, went further and warned that if any large Japanese banks with huge derivatives contracts failed this would trigger a chain reaction on international markets.

In other words, the crisis provoked by the Russian default would seem like a storm in a teacup by comparison.

The IMF agenda

Notwithstanding these concerns, Greenspan and Rubin will press ahead with the demands for large sections of the Japanese banking system to be wiped out in a restructuring program.

The US demands on the Japanese government have not been brought forward overnight--they are the sharp point of a long-running international agenda pursued by US banks and financial institutions, both at a government level and through the International Monetary Fund.

Many commentators have already noted that when the Asian crisis erupted last year, the IMF's measures were guided far more by the imposition of so-called 'structural reforms' than the restoration of monetary and fiscal balance. In fact, this is acknowledged by the IMF itself, which notes:

'Forceful, far-reaching structural reforms are at the heart of all the programs, marking an evolution in emphasis from many of the programs that the IMF has supported in the past, where the underlying country problem was imbalances reflecting inappropriate macroeconomic policies.'

The basis of this new agenda has been the destruction of what could be termed national-based systems of capital accumulation, and the opening up of whole sections of the Asian economies to international, in particular, US capital.

For example, in the Korean bailout the IMF did not restructure short-term debts and provide emergency funds to meet interest obligations--the measures employed in earlier financial crises. Rather, it organised a \$57 billion pool of money so that private corporate borrowers in Korea could meet their foreign currency obligations to US, Japanese and European banks. It made receipt of these funds conditional on a transformation of the Korean economy.

Critics of the IMF measures say its Korean program went far beyond what was needed to alleviate the financial crisis. They amounted to nothing less than a complete restructuring of the banking and financial system--directed above all to break up the close relationship between the banks and the Korean chaebols, which had been at the heart of the development of Korean capitalism.

The measures called for closing down troubled banks, allowing foreign institutions to buy up failed banks and the use of international accounting standards. They further required the government not to intervene in the

lending decisions of commercial banks and to end all government-directed lending, and to give up measures that assist individual corporations in avoiding bankruptcy.

Similar measures were imposed in both Indonesia and Thailand.

One of the most prominent critics of the IMF program, the Harvard economics professor Jeffrey Sachs has accused the IMF of promoting financial panic. According to Sachs: 'Instead of dousing the fire the IMF in effect screamed fire in the theatre.' The IMF's insistence on bank closures, in Korea, Indonesia and Thailand, made depositors frightened and its insistence on cuts in domestic demand accelerated the bankruptcy of firms that were efficient and profitable.

Critics such as Sachs have insisted that liquidity should have been increased, not reduced, in order to keep the affected economies moving forward. But such criticisms assume that there is a coincidence of interests between the forces of global capital, represented by the IMF, and the national capitalist class of the debt-ridden countries.

Breaking up the Asian 'model'

The chief aim of the IMF measures has not been to bring about a revitalisation of the economies in which it has intervened, but to ensure the transformation of those economies in the interests of international and especially US capital by breaking up the so-called 'Asian' or 'Japanese' model of capital accumulation on which they have been based.

In East and Southeast Asia, as well as in Japan and Korea, the corporate debt to equity ratios of major firms are around two to one, compared to the one to one figure for western countries, including Latin America.

The high debt ratio is the outcome of a system in which close collaboration between governments, corporations and the banks have mobilised savings for investment and capital accumulation.

This system has long been opposed by American and to some extent European financial interests because it has worked against their interests to the benefit of Japanese capital. But with the onset of the Asian crisis, the opportunity has arisen to break it up.

And the IMF, urged on by the US Treasury, has lost no time in seizing it. Directing its sharpest attacks on the banking system, the IMF 'restructuring' is aimed at ending the Japanese-dominated mode of nationally-regulated accumulation, and opening the way for the movement of international capital into the Asian economies.

A recent article in the *International Herald Tribune* was quite explicit in drawing out the content of the measures being implemented.

'As Asia's economic crisis has intensified, it has been widely noted that most of the urgent short-term remedies prescribed by the international financial community are labeled 'Made in America.' Only now is another point beginning to sink in: The upheaval is likely to bolster America's global influence over the longer term, too. The sudden collapse of Asia's house of cards is beginning to be seen as the end of an outdated economic and political system--based largely on the mercantilist, government-run Japanese model--much as the fall of the Berlin Wall symbolized the demise of communism.'

The representatives of US financial interests have been no less explicit in setting out the aims of their policies. In an address to the New York Economics Club in December 1997, Greenspan declared: 'The current crisis is likely to accelerate the dismantling in many Asian countries of the remnants of a system with large elements of government-directed investment, in which finance plays a key role in carrying out the state's objectives. Such a system inevitably has led to the investment excesses and errors to which all similar endeavours seem prone.'

In other words, the capital based on these 'investment excesses' must be wiped out to make room for more powerful international rivals.

In his address to the Senate Foreign Relations committee in February this year, Greenspan said that one of the effects of the Asian crisis was a

move worldwide to 'the Western form of free market capitalism' and a turn towards 'the type of market system which we have in this country'.

The US Deputy Treasury Secretary Lawrence Summers was no less forthright when he delivered an address entitled 'Opportunities out of Crises' to the Overseas Development Council in March.

The 'reforms' being implemented, he said, were 'less about changing the short-term policy mix than they are about changing the long-term institutional environment ... the challenge of building a new system of governance better attuned to the demands of an integrated modern market economy.'

Just as in the 19th century, when the demand for 'free trade' reflected the specific interests of dominant British manufacturers, so the demand for the abolition of restrictions on capital flows reflects the direct interests of US financial corporations.

Summers made no bones about the aim of the US-IMF program. 'The emphasis,' he said, 'is on reducing direct public investment in the productive sector--for example, in the Korean pledge to eliminate non-economic lending to industry. And it has been on opening the economy to foreign participation and competition with sweeping trade and financial sector liberalization, both to improve the efficiency of the economy and to let long-term capital in.'

A recent editorial entitled 'Far-sighted vultures', in the British big business daily, the *Financial Times* noted that one effect of the Asian financial crisis was to subvert long-standing protectionist barriers and that 'over-investment and excessive debt have brought about what years of international trade negotiations have failed to achieve: a genuine loosening of tightly controlled ownership structures.'

According to Colombia University professor Jagdish Bhagwati, there are definite financial interests behind the IMF agenda of opening up financial markets everywhere.

'Wall Street has become a very powerful influence in terms of seeking markets everywhere. Morgan Stanley and all these gigantic firms want to be able to get into other markets and essentially see capital account convertibility as what will enable them to operate everywhere. Just like in the old days there was this 'military-industrial complex', nowadays there is a 'Wall St.-Treasury complex' because Secretaries of State like Rubin come from Wall Street. ... So today, Wall Street views are very dominant ... They want the ability to take capital in and out freely. It also ties in with the IMF's own desires, which is to act as a lender of last resort. They see themselves as the apex body which will manage this whole system.'

The Wall Street-IMF juggernaut has swept through Southeast Asia in the past year. Now it is knocking on the door of Japan. That is the meaning of the increasingly strident demands for the 'restructuring' of the banking system.

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