Japanese finance minister attacks "Washington consensus"

Nick Beams
26 January 1999

Japan's vice-finance minister for international affairs, Eisuke Sakakibara, often described as the country's top financial diplomat, has warned of a major meltdown unless the international financial system is reformed. He attacked what he called "American dominance" of the International Monetary Fund.

His blunt assessment of the global economy came in an address last Friday to the Foreign Correspondents Club in Tokyo.

"I hope that in the next 10 to 20 years we could avoid both depressions and war," he said, "but there is a definite risk of world financial collapse. For that reason, reform of the international financial architecture is so important. I think the financial system we have today is inherently unstable. We need to set up a new system to stabilise financial markets. Otherwise the repetition of crisis after crisis ... is going to result in a major meltdown of the world financial system."

Taking his cue from the recent book by international financier George Soros, Sakakibara said he was not against market forces or the market mechanism but was opposed to US-led "market fundamentalism" in which the market was left to operate without question. "The basic dilemma lies between free-wheeling global markets and sovereign nation-states," he said.

Sakakibara, who has expressed support for the currency controls imposed in Malaysia, said global capitalism had to be "restrained" in its cross-border transactions, be it through "disclosure, supervisory and prudential regulations or outright controls".

Criticising the IMF's handling of the Asian crisis, he said the fund's philosophy was a "Washington consensus" of "free markets and sound money" which had been blindly applied as a universal model on emerging economies.

"Since I was personally involved in the process and agreed, although reluctantly, in the end to what was recommended, I am in no position to criticise others for what has happened. But unlike the (IMF) managing director Michel Camdessus I can only say that if I am confronted with similar situations in the future I will probably handle them differently."

Defending the record of the Japanese government, he said financial bubbles were not necessarily created by mistakes in macroeconomic policy but were "natural consequences of markets where fallible market participants interacted with each other with less than perfect foresight".

He did not believe that the unfettered free market would survive.

"First, American dominance which seemed assured for some time after the demise of socialism seems to be declining both on political and economic grounds--partly because of the unification of Europe and partly because of potential anti-American sentiment in various parts of the world that has arisen in recent years."

According to Sakakibara, the balance of forces in the world financial system is changing. While in the early 1990s "it may have looked as if the US would come close to having a financial empire ... that is certainly not the reality we face at the end of the 20th century."

In a move that could have major repercussions for the world financial system, Sakakibara told journalists the restructuring of the Japanese banking system would proceed rapidly over the coming months. The financial crisis in Japan was nearing an end because of "very tough action" by the Financial Supervisory Agency. This would result in "major withdrawals" from international markets.

If the FSA does proceed along these lines, it could mean the liquidation of overseas assets held by

© World Socialist Web Site

Japanese banks and financial institutions as they seek to bolster their balance sheets at home.

Whether or not such action is eventually carried out, the vice-finance minister's remarks reflect concern in Japanese ruling circles that the continuing weakness of the banking system and the turbulence of the yen could see Japan lose considerable influence in the international financial realignment that is underway following the launching of the euro.

Sakakibara's attacks on US policy come amid rising tensions over trade. US Trade Representative Charlene Barshefsky has again warned that sanctions could be imposed unless Japan takes action to meet American demands.

Speaking to a meeting of the Asia Society in New York last Thursday, Barshefsky said "trade tensions" in the US-Japan relationship were rising. "From rice and flat glass to autos and insurance, Japan faces renewed friction and mistrust. Nothing positive, and much negative, can arise from failure to resolve issues on our trade agenda."

Barshefsky's remarks echoed those she made a week earlier when she declared it was "no secret that trade tensions between the United States and Japan are increasing, quite dramatically".

Following her Asia Society address, Barshefsky told reporters Japan had to reduce its steel exports substantially or the US would retaliate. "I've made very, very clear that if Japan's December export figures do not show a substantial decline in steel exports we will self-initiate trade actions."

The increasing bellicosity of Clinton administration representatives is being fuelled by the mounting US trade deficit, and the near-recession in manufacturing industry generated by the decline in export markets flowing from global financial turbulence.

The latest figures from the US Commerce Department show that the trade deficit climbed to $15.5 billion in November, up from $13.59 billion in October, with falls in the exports of agricultural products and manufactured goods. With one month still to be counted, the deficit for 1998 is already at an all-time high of $153.9 billion, surpassing the previous record of $153.4 billion set in 1987.

The trade gap is set to widen even further in coming months with predictions that it will increase by between $50 billion and $60 billion in 1999.

US National Association of Manufacturers president Jerry Jasinowski said that, bad as the numbers were, worse was to come. "Demand is sluggish in every region. Asia and Russia remain in deep recession. Latin America is struggling to avoid an Asia-type collapse."

And a new factor has now entered the picture--growing concerns that the day may not be too far off when the US is unable to finance its trade deficit and foreign debt through the continuous inflow of foreign capital eager to take up holdings of US dollars.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site