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Watanabe pushes U.S. to fix credit crisis

By YURI KAGEYAMA
The Associated Press

Likening the U.S. credit crisis to a broken bathtub leaking water, financial services minister Yoshimi Watanabe is urging Washington to inject public money to fix the problem before it gets worse.

Sounding almost alarmist in an interview Wednesday, Yoshimi Watanabe used unusually blunt language to warn that drastic action was needed to address the crisis that has battered global markets.

Unusually blunt: Financial services minister Yoshimi Watanabe, a vocal proponent of economic reform, is interviewed Wednesday in Tokyo. AP PHOTO

"If there is a big hole in the bottom of the tub, no matter how much hot water you keep adding, you will never have enough hot water," Watanabe said.

Fixing the leak requires "an overall package, including monetary policy and public money," he said.

As the subprime fallout grows, the idea of a public bailout isn't sounding as far-fetched as it once did.

In an interview with The Wall Street Journal last month, Sen. Hillary Clinton, a candidate for the U.S. Democratic presidential nomination, said the U.S. government should be ready to buy troubled mortgages from investors and avoid a prolonged slowdown.

"We might be drifting into a Japaneselike situation," she was quoted as saying.

Last month, the U.S. resorted to a public bailout of sorts for Bear Stearns, a major brokerage. The Federal Reserve allowed JPMorgan Chase & Co. to borrow from the Fed, and provide that funding to Bear Stearns. Fed officials said the procedure dates back to the Great Depression of the 1930s but has rarely been used since then.

But Watanabe said the looming global credit crisis, which started with the subprime mortgage woes that surfaced last year, was the biggest financial dilemma for the world, and Japan, since the 1930s.

Watanabe, head of the Financial Services Agency, said Japan has a lesson to share with the rest of the world in how it dealt with the bad debt problems of the 1990s — and that the U.S. can learn from Japan's mistakes.

Japan acted too late, procrastinating for six years in tackling the piles of bad debts major banks had racked up during the excessive bubble economy years.

problems facing Japan and the U.S. and insisted that the basic result, lenders running out of capital, is exactly the same — and will ultimately need the same fix.

Experts also said the U.S. credit problems were similar to those of Japan in the 1990s.

"There are parallels," said Eva Marikova Leeds, an economics professor at Temple University in Tokyo, pointing to the real estate bubble in both.

"The underlying problem was the assumption that housing prices would rise forever," she said. "Japanese regulators moved too late."

Watanabe, a Lower House lawmaker who also oversees economic and administrative reforms, appeared convinced the U.S. government would use public money. He said that decision may not come during the presidential election because of the inevitable question about political accountability.

Watanabe also said he was worried about export-reliant Japan and its massive dollar holdings if the U.S. fails to wrest itself out of the credit crisis. Direct subprime exposure among financial organizations here is believed to be relatively small.

"Japan's recovery is dependent on U.S. economic health and so we could be in deep trouble," Watanabe said.

Iwan Azis, a professor of management and regional science at Cornell University in Ithaca, N.Y., said comparing the U.S. and Japanese lending fiascoes isn't particularly useful because the causes and mechanisms are so different.

What the U.S. needs is more regulation, while Japan needs to do away with restrictions to open its markets to foreign investment and new businesses, he said in a telephone interview.

"There are too many regulations in Japan," Azis said.

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