Chapter 6 Conclusion

6.1 Verification of the first hypothesis

We have demonstrated the validity of the first hypothesis that money and credit ought to be controlled as an underlying social structure. When considering money and credit from the perspective of stability of value, we have found that capitalism inevitably embraces fragility internally. In order not to engender the fragility that would lead to the collapse of the capitalism, e.g., the loss of confidence in the international monetary regime itself, we must control the issuance of money and credit in the public interest as a whole.

Conventionally, as we have considered flow and stock variables separately, and their reflexive effects, and have focused only on the flow variables, we overlooked the symptoms of the boom and bust of a bubble economy. However, by utilizing the T-account matrix to explore the credit-flows mechanism in economic development and a bubble economy, we should note that it is possible to foresee the knock-on effects of the reflexive (self-perpetuating but converging) repercussions on the economy as a whole caused by changes in asset prices.

If we regard key currency as the core of international financial architecture, it should be clear that there is a contradiction under the present international monetary regime: whereas the United States is participating in global markets as one of the competitors, the dollars issued by the United States represent global capitalism as a whole. Only because the US dollar is the key currency in the world, has the United States long been able to finance its current account deficits by issuing foreign debt securities that are denominated in the US dollar. In other words, the Federal Reserve does not have any worries about either its international liquidity risk or of course the exchange rate risk for the private sector in business.

When the market economy is further deregularized and globalized, the role of international currency as a social substructure grows significantly. Unfortunately, the United States eschewed its responsibility of controlling the issue of dollars in the public interest, which resulted in an excessive supply of dollars circulating around the world. In a sense, we could see the Asian financial crisis as the boom and bust of a bubble economy, which had proliferated through the "New Imperial Circle" of the United States. That is, the huge scale of external debts of the United States were held by the rest of the world in the form of US treasury bills and more or less liquid financial assets. We are facing the risk of an international bubble economy that is growing greater and on a global level. Asian monetary integration will be an architectural option to avert the risk of fragility under the present international financial regime.

6.2 Verification of the second hypothesis

As to the second hypothesis that money and credit have functioned as an engine for world history, the evidence is not clear-cut. In the preceding argument of international monetary regime change, we have outlined the theory of 'historicism' such as the laws of history, laws of social development, or laws of progress (see Hegel, 1988; 1991; Popper, 1945a; 1945b; 1952). However, we cannot find predictions for the course of human history by scientific or any other rational methods.

Nevertheless—at least from the monetary perspective—, we should emphasize that we found a way of predicting the future from the present to a certain extent. A T-account matrix itself is similar to a still shot from a motion picture. It is the projection of the whole structure of credit flows at a certain point of time, and through the mathematical manipulation of the matrix, we can forecast the knock-on effects of reflexive (self-perpetuating but converging) repercussions on the economy as the whole at a next point of time. If we construct T-account matrices continuously at intervals, forecast the reflexive effects, and fine-tune the predictions by feedback data at the next point of time, it appears workable as if a motion picture of economic development runs smoothly. At the same time, however, we must recognize the limitations of the T-account matrix analysis in predicting the future. Although we can effectively forecast the reflexive effects from the structure of matrix at a certain point of time, the very structure of matrix at the next point of time is affected by many exogenous and uncertain elements. For example, as already argued, the structure of matrix is determined partly by the relative costs of credit supplies, which are mainly dependent upon the interest rates of various credit instruments, and partly by the direction and scale of credit flows themselves. To sum up the major characteristics of the T-account matrix analysis, it is only useful in predicting the next position of general equilibrium, as we cannot repeat the feedback process in a perpetual circuit to predict further, because of the increasing exogenous and uncertain interference.

6.3 Asian monetary integration

Finally, we must reiterate our argument that it would be theoretically possible to establish systems of pegged-but-adjustable rates or target zones as a first step towards the future monetary integration in Asia. We would like to propose the establishment of a multilateral financial institution such as the Asian Monetary Fund (AMF), which will be expected to work as the lender of last resort for regional financial stability. The AMF should take responsibility for exchange control with those outside the region and for the provision of international liquidity. The function of the AMF should also include mutual surveillance of member countries and macroeconomic policy recommendations.

We must make every effort to overcome the Japanese dilemma over Asian integration by addressing such problems as subordination to the United States and the historical trauma of Japan and the other Asian countries. The Japanese government should investigate what happened during World War II as openly as possible. It is important for the Japanese to reach a clear sense of what the Japanese armed forces did in each case at that time. Based on such an honest assessment, Japan can decide case by case whether or not, and to what extent, she is responsible for the past. It will not be until Japan reviews the war and her responsibility in the true sense that we can take a step forward. Based on such a comprehensive review of past actions, the Japanese government should express her resolution never to resort to an act of aggression or become a military threat to the other countries for any reason. Under the strict allied regime of the Japan-US Mutual Security Treaty (1951), the Japanese government has not been used to deciding on its own foreign policy outside the US sphere of influence. However, it is dangerous in any circumstances to entrust the authority of foreign policy to another government. There are risks involved in unintended warfare. The Japanese government must not allow US armed forces to mobilize resources in Japan and attack Asian neighbors in pursuit of the US national interest. The Japan-US mutual security treaty should be interpreted in the restricted sense of self-defense only.

A regional regime for international finance has been the missing link in the move towards a more integrated community in Asia. We need to explore further the feasibility of, and rationale for, monetary integration in the region, studying not only the purely economic factors but also the political implications. Although it does not seem an easy path to follow, we must pursue integration as one of the future public policies of Japan. This will also be the greatest challenge for future generations across Asia. We believe this can be done, because monetary integration in Asia will serve the common interest of all Asian nations, and ultimately the whole world.