

# JAPAN, WE ARE RIGHT WITH YOU

## WEB BUZZ 2009.09.08

We have for some time now suggested that Japan's experience from 1989 to date is what we might possibly expect here in the U.S. for the foreseeable future. Note the two charts that depict Japan's total debt to GDP ratio in 1989 at the top of their bubble economy, which was approximately 269%, and our ratio, which was approximately 370% at year end 2008. Japan had two bubbles - stocks and real estate. We have had the very same thing. In both cases the bubbles were created by excess debt and speculative "animal spirits" as Keynes would say.

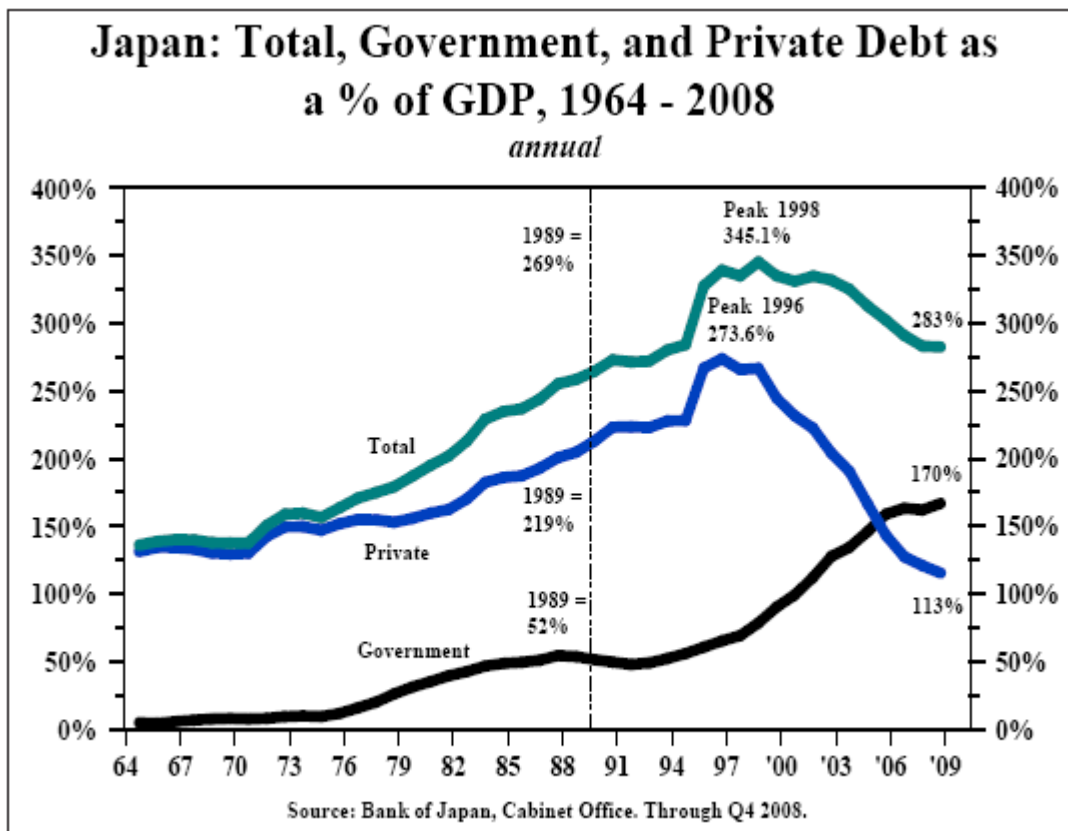
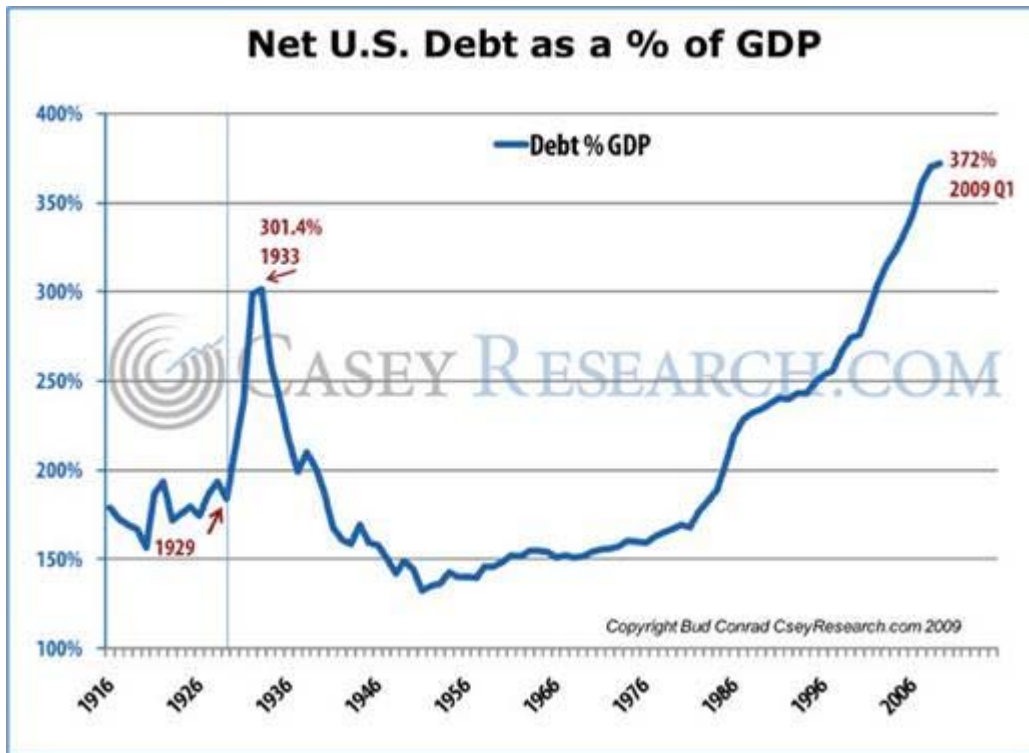


Chart 5

Adapted from Mish's Global Economic Trend Analysis



Adapted from FinancialSense.com

Japan's chart also shows what happens after the bust, and ours is just getting started. Note the move upwards in Japan's debt ratio after the peak in business activity as well as our experience after the stock market crash of 1929. Debt keeps growing as a percentage of GDP for some period of time due to government borrowing, as well as private borrowing in Japan's case. The chart on the U.S. debt to GDP ratio does not show it, but it is only the government debt that continues to grow in our case. Private debt is currently declining for the first time since World War II. Maybe we learn faster, or more probably, without any savings, we had no choice. The Japanese are some of the greatest savers in the world - saving around 40% (China is the same) while we, on the other hand, saw our savings go from 12% in 1980 to around 5% now. Our "shop 'til you drop" mentality has become "save all you can."

With high unemployment (Japan, by the way, hit an all time high last month) and no wage increases in the U.S., our future looks grim. It seems as if the only

ones making money here at home are those who received government bail-outs and caused the problem in the first place. We would be much surprised if we do better than Japan has and they are not out of it yet!