

## ***WATCH JAPAN FOR A PREVIEW OF WHAT MIGHT BE IN OUR FUTURE***

**REAL MONEY column for The Santa Fe New Mexican  
By Rob Rikoon**

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Rarely do we get to see the likely unfolding of our own future ahead of time by watching another nation. On a national, state and city level, we face crippling budget deficits due to falling tax revenues and increased social program spending. Japan is entering its third decade of sluggish economic activity in economic circumstances eerily parallel to those we now face in the U. S.

Japan's credit rating outlook was recently downgraded because of its high government debt and weak political will. On its current trajectory, it is less than five years away from hitting a financing brick wall. Their government policies call for more borrowing and spending to boost growth. They have a rapidly aging population who is reducing personal spending to cope with anemic job creation and stagnant wages. The political process is incapable of reforming a financial system that rewards entrenched cartels of special interests. Sound familiar?

Japan's debt load as a proportion of their GDP is nearly twice that here in the US but Japanese investors own 94% of their own government bonds while foreigners hold over half of our indebtedness so, in some ways, we are more exposed as a national economic unit. Our military power is clearly superior to all other nations and this gives foreign investors' confidence to continue to lend us funds to operate. Japan has already seen their crushing levels of public debt slow domestic economic growth. They have chronic high unemployment and the stock and bond markets there have had sobering low returns for 20 years.

Many Western European economies are in almost as much trouble. Greece, Spain and Portugal, along with Ireland, the UK and France, are all deep in the red. England's economy is the most heavily dependent on the financial sector but it has a tradition of strong, independent action in addressing financial problems. The other weaker economies will attempt to cope with their downward debt spiral through either hyper-inflation, devaluing their currencies or in some rare courageous instance, by instituting severe austerity programs which are almost certain to cause social unrest and protests.

The next few years are going to be very interesting as Germany and the Northern Sea countries may decide to go their own way, breaking up the European Union so as to be spared the burden of bailing out the offending nations. It may be several years before the pain of running massive deficits in Japan is felt by its citizens but they will have to raise taxes, hike interest rates, or both in order to entice investors to continue to buy their bonds.

All is not bleak on the international front as resource rich countries such as Canada, Australia and the North Sea oil producers are good bets for stability and emerging Asian countries with young, educated and motivated populations are poised for real growth. Back home, the Feds will bail out states that get too deep in the hole but I wonder who will bail the U.S. out when the markets finally decide that we have taken on too much debt? Watching Japan closely may provide us with a sneak preview on where we may be headed.

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