Japan could be the next Black Swan

As Abenomics has failed to cure the Japan's near-20-year economic malaise, the world media seem to have concluded that it has past its sell-by date, and Japan is going off the world map once again. While the tag team of the Abe administration and the Bank of Japan has not improved the chronic output gap, the government has substantially increased the government debt. But it does not appear to change the ill-fated policies.

If it stubbornly sticks to the current course, the following chain of events is likely to take place in the near future: the Bank of Japan loses the monetary battle -> downgrading Japan's credit -> massive Yen selling -> high-inflation -> steep interest rates rise -> the central bank purchases newly-issued government bonds -> bank account freeze -> a new Yen issued -> destruction of wealth -> global chaos -> emergence of a new world currency/monetary system.

Not a mere documentary!

On 16 February 2015, the NHK, the Japan's public broadcaster showed, after the 9 o'clock evening news, a short documentary on how in 1946 the government restricted people's access to their money.

While the programme inserted a brief uncontroversial comment by a female researcher who said 'The current situation is very different from those days, but the increasing public debt should not be overlooked.', it was not followed by debates or discussions, almost all viewers seemed to have taken this past event as no more than just a historical fact and apparently they were not alarmed or emotionally stirred. Needless to say, that would have been the last thing the NHK/government wanted. However, it does not look like a mere documentary. Let us grasp its significance by placing it in a context.

The government's true colours were revealed

At the time of the broadcasting, it was '69' years ago exactly on the same day when the Minister of Finance, Mr Keizo Shibusawa, shook the whole country by announcing a nationwide bank account freeze, and it was promptly implemented on the following day. The authority had to take action immediately. Otherwise a large-scale run on banks would have been unavoidable.

After being comprehensively defeated in 1945 by the Allies in World War II, Japan suffered from acute shortage of goods, including staple food. Black markets became rampant, social disorder was wide spread. The economy was literally paralised, and the collection of tax was practically impossible. People had to withdraw cash from the banks just to eat, and high inflation ensued. Then the government revealed a plan to impose a ban on cash withdrawal, have the populace deposit cash at banks and replace it with a new Yen. This measure was meant to decrease cash in circulation and thereby to control inflation. However, there were a number of loopholes, and its real effect turned out to be limited. Some shrewd individuals made a fortune during this period.

The media reported the restriction on the cash withdrawal, which eventually lasted for 2 years, as a measure to decrease money in circulation and thereby to tackle inflation. (They have largely unchanged as the authority's propaganda machine). In the contemporary economic terminology, it was a 'quantitative *tightening*'. However, the NHK programme reveals that the government's true intention was subsequently to impose tax on people's assets.

Later in November in 1946, an 'asset tax' was indeed introduced with the highest rate of 90% on those whose bank deposits and real estate combined was worth more than Yen100,000.

The government had borrowed massively from the people to finance the war. By 1944 its debt had reached 204% of the country's nominal GDP and officials were pressed to repay the debt. Then the government actually had the central bank purchase newly-issued government bonds, and thereby increased money supply and rendered outstanding ones worthless by instigating high inflation. Prices indeed shot up 70 times during the next couple of years. It used 'patriotism' to plunder ordinary savers to fund the war by making them purchase government bonds and took the post-war social disorder and confusion to its advantage to plunder again poorly-informed survivors to raise funds for an economic recovery. It was a forceful transfer of wealth from households to enterprises. What the Abe-Kuroda team has been doing is fundamentally no different from it.
Although the NHK presenters did not give such comments, it showed a 1963 interview with Mr. Shibusawa who, looking back at this confiscation, confessed his fear of his home being set on fire. He also expressed his profound remorse, saying that he had really done an 'awfully regrettable' thing to the people.

The government's true aim behind the programme
Fast forward to the end of 2015 the public debt is expected to have reached Yen1,143 trillion, 233% of GDP, despite having not fought a war in the last 70 years. This extraordinary debt explosion, which is a well-known fact in the world, is a result of wasteful public expenditure to keep the economy afloat by successive Liberal Democratic Party administrations. It has been made possible by the central bank's accommodative policy, the lack of disciplinary pressure by the markets, strong demand for government bonds from banks and institutional investors, and so forth.

Since the government's debt financing is largely backed up by domestic banks and institutional investors, the past downgrading by the rating agencies have not given rise to selling of the government bonds by foreign investors. Besides, as the short-term interest rates were lowered, the investors were willing to take on new debts to make capital gains. Years of a weak equity market also encouraged them to buy government bonds.

Meanwhile, the Bank of Japan carried out quantitative easing for 5 years from 2001, and the level of its JGB-holding has now reached 75% of GDP. It stood at 26.4% during the Japanese-Russo War in 1904 to 1905, and even in 1944 when Japan was fighting the losing battles with the Allies, peaked at 33.5%. The BoJ's massive on-going QE is said to be sheer madness.

Whether the TV programme was independently conjured up by the NHK staff or not is unclear, but it would be surprising if they had not been nudged by the Ministry of Finance which is undoubtedly aware that the current pace of debt accumulation is not sustainable.

NHK could have set the release of the programme to be on 16 of this February which is exactly '70' years after the bank account freeze. Why did it not wait till then? I suspect the government decided it would be sensible to give the populace a little taste of what is to come in the near future, and that just broadcasting the documentary would make the authority feel less 'awfully regrettable' after the course of events had taken their course.

High inflation, the easiest measure to clear the debt

Among the advanced countries, Japan was the first to have fallen into deflation and will probably be the first to come out of it. What is in store, however, will not be the realization of the 2% inflation target that the Bank of Japan has been so desperately trying to achieve. Instead, it will be met with far higher inflation. Rather it can be reasonably argued that uncontrollably high inflation is what the Abe-Kuroda team is aiming to bring about.

A government has several options for debt clearance: 1) cut deficits, 2) increase tax revenue, 3) achieve high economic growth, 4) invade and conquer another country, and confiscate its wealth, 5) transfer some debt to other countries like the US has been doing, and 6) cause high inflation.

It is overwhelmingly clear that the Abe administration has no intention to go for Option 1). It has not entirely ruled out the further increase of the consumption tax, but it has already lowered corporation tax. So on the net basis, it is not willing to take Option 2). These two choices, which would likely to be death sentences to the government, are ruled out. Option 3) is beyond the wildest dreams. A scenario that arms conflicts in the neighbouring countries, plotted or not, are to generate extra demand is not easy to picture. Option 4) will require several years of preparations and be met with strong condemnation by the international community. Option 5) is unrealistic because no such sovereign states can be found on the horizon.

The government can roll over interest and principal payments by issuing new bonds, of course. This is only made possible with good demand from investors. However, such generous investors may well be limited in number even in Japan. The authority would be forced to offer interest payments which are higher than the inflation rate, and this will mean it will be caught in the debt spiral.

So Option 6) is the easiest choice and was already adopted immediately after the war as mentioned earlier. The government and the BoJ seem to have already been determined to follow this path purposefully. This looks like their ‘exit strategy’.

Watch out for the passive voice!

In the last 20 years or so, the public debt continued to grow, whereas the nominal GDP remained stubbornly flat. This Japan’s experience of long economic stagnation is often called ‘lost two decades’.

Since it is expressed in the passive voice, it has been taken as a natural phenomenon or a result caused by external factors.

The lost two decades, however, is brought about undoubtedly by the spectacular failure of fiscal and monetary policies. If a private company did not achieve higher profits and its balance sheet kept on deteriorating over 20 years, it would have gone bankrupt. A passive voice is a very convenient way not to question the responsibility of an agent who caused an undesirable outcome.

Who made Japan’s debt the largest in the world compared to its GDP? It is nothing but the government. Whose government is it? It is the electorate’s, the voters! The public debt is people’s debt, and therefore its repayment ultimately is their duty.

Panic to be instigated by the Bank

Implementing a bank account freeze will be met with strong resistance from the populace. Obviously recreating a similar confusion the nation experienced immediately after the war is out of question. In any case, to let people swallow it easily is to cause turmoil, chaos or panic. The BoJ seems to be well on its course.

At the end of October 2014, the Fed ‘officially’ announced the end of its QE with its 3rd iteration, and this was immediately followed by the BoJ’s massive QE expansion. This was far from a coincidence.

The Fed needed to keep the Treasury market supported after its termination of debt monetisation. By happily taking the baton, the BoJ bought up lots of domestic government bonds from the market, and this forced institutional investors to hold more US Treasuries. It appears that the Fed’s mere suggestion was sufficient to move the BoJ.

Since domestic institutional investors such as insurance companies and pension funds must hold some JGBs, and banks are also required to hold them as safe asset, the BoJ will obviously not be able to continue its QE indefinitely.

According to the Bank’s ‘Japan’s Flow of Funds Accounts’ released on 17 December, provided that it gave true figures, the Bank has already held Yen 315 trillion at the end of Q3 which is over 30% of the outstanding JGBs, and become the market’s largest ‘investor’. Consequently, liquidity of the JGB market has now been squeezed, and it has become vulnerable to sudden selling pressure. The acceleration and expansion of QE has simply brought forward the day of reckoning. Was it not aware of the consequence? Impossible!

On 3 September 2015 Mr Takehide Kiuchi, a member of the BoJ’s policy board, said, ‘It is extremely difficult to predict when the Bank will reach its QE limit’. This is an odd comment: considering the market size, the pace of QE, and supply and demand in the market. Even the BoJ outsiders, up to an extent, can tell when the game is expected to be over.

Mr Kiuchi added 'If a situation suddenly arises where the Bank finds it difficult to buy any more JGBs, it would dent the confidence in the Bank's policy and rapidly increase the uncertainty regarding its future policy operations, and thereby volatility of the financial markets could get higher in a very short period of time.'

Why did he dare to reveal to the public the risk of losing control? Why did he speak his mind in September...in a speech in a rural city? There must be some restrictions in the contract imposed on him, but he is a former Nomura economist and is not interested in advancing his career in the Bank and thus can express his views rather freely. Obviously his candid comments are to be used as a good excuse, in the later days when a chaos or panic hit the nation, that it had been aware of the danger.

He might have been urged to give such comments after an IMF working paper had been released in August 2015 which forecasts the BoJ will be forced to taper its QE and restructure the asset composition in 2017 or 2018. However, there must have been no one in the audience who had read such a specialist paper. Then why does the Bank not immediately cease its QE which

has proved totally ineffective to stimulate the economy? To my mind, it is aiming to push itself into a corner and instigate a crisis. What other natural conclusions can one think of?

There are doubts growing in the domestic financial community that the QE programme will be unsustainable sooner rather than later. I suspect the critical time will arrive by mid-2016 or even in Q1 2016.

Kuroda is fully aware of the impasse

Governor Kuroda, immediately after having been appointed in March 2013, firmly and publicly committed himself and the Bank to achieving the 2% inflation target within 2 years. For the record, he actually said 'within *about* 2 years'.

As the Yen had already started weakening, he might have thought the timeline was not unreasonable, assuming that the economies of China and America would continue to grow steadily.

However, making such a bold public statement is utter folly: supposedly omnipotent central bankers can set and publicly declare a clear numerical policy target but must not give a timeline, for they always need to leave themselves room for manoeuver just in case objectives is not met within a timeframe.

Central bank officials are expected to possess an essential skill to stay elusive, to keep talking mumbo jumbo and never to admit any mistakes or errors, not to mention any failures. Governor Kuroda is unlikely to be unaware of or has not acquired it.

The Fed, the European Central Bank and the Bank of England are all aiming to achieve the 2% inflation target but only in the medium term and have never given away a deadline. The BoJ's stance is starkly different in this respect. Last March after 2 years had elapsed since his appointment, the Governor mentioned that the steep oil price decline since summer of 2014 was a cause which contributed to missing the inflation target.

The oil price is such an important factor which affects the global economy, and it had been artificially kept high, despite the weakening demand. This, in turn, contributed to the US shale oil 'revolution' which is nothing but a bubble created by the Wall Street banks playing the zero interest rate policy and excess liquidity provided by the Fed.

And the US real economy is far weaker than the various data indicate. This had been argued for some time by a small number of independent economists. Belatedly, even the Economist, published last October, placed an article, *'Funny numbers. America's GDP statistics are becoming less reliable'.*

Did the policy makers at the Bank of Japan, who should be able to access to the best possible macro-economic data available, fail to grasp the reality? If that is the case, they are idiots!

In early June, refusing to admit its policy failure and reiterating the bank's price target, Governor Kuroda said in a conference, "I trust that many of you are familiar with the story of *Peter Pan*, in which it says, 'the moment you doubt whether you can fly, you cease forever to be able to do it.'" Was I the only one who saw him as if he were a cult leader?

Moreover, in July, the Bank launched a new consumer price index which excludes the energy component. The aim is precisely to use it to support the Bank's argument. If the policy makers were smart enough, they would have adopted such an index soon after Kuroda took the office.

In August it was made overwhelmingly clear that global deflationary pressure had been intensifying with the slowdown of the Chinese economy followed by another monetary easing and rather unexpected devaluation of the Renminbi by the People's Bank of China.

This apparently put the BoJ off guard, and the Governor expressed the need to increase the number of its China analysts. It was an unashamed admission that its analysis of the Chinese economy was not good enough. Will sending more staff to Beijing or Shanghai really raise the standard and quality of the analysis?

Furthermore, in October, disregarding the fact that the year-on-year CPI excluding fresh food has been near 0%, Mr Kuroda repeated his familiar contention that the price growth would steadily improve and accelerate its pace toward the 2% objective. What an absurd narrative! His message is literally like 'Believe Peter Pan, whatever the data may be.' He seems to be deliberately driving himself into a cul-de-sac.

His occasional awkward smirks at press conferences look like those of a clown who is just playing his part of a scenario only the central bankers are familiar with. I cannot help suppressing sympathies for those journalists who must be present at the farce and carefully listen to every single piece of gibberish coming out of the Governor's mouth.

Are they not losing confidence in the Bank? They must be insane otherwise. If they argue or openly challenge the Governor, however, their future careers may well be in danger. To them, sticking to prescribed Q & As must be a 'sensible' and safe tactic. 'What a load of rubbish! Non-sense!', Mr Kuroda would say if he watched himself in a recorded video press conference.

A 'rescue' from overseas

The government is aiming to turn its basic primary balance into the black by 2020. To achieve this goal, it will have to cut deficit in the 2016 budget. With the Upper House election scheduled in summer, however, it is unlikely to opt for austerity.

Then the objective will be seen as a mere slogan. This could trigger another downgrading of the JGBs by the 3 major rating agencies sometime next year. Following those by Moodies and Fitch in 2014, Standard & Poors has also downgraded them last September. The Japan's rating, which is already below those of Korea and China, will sink further down the rank.

As the time goes by, Mr Kuroda will find it increasingly difficult to continue to hold onto his contention. The markets will no longer entertain his mumbo jumbo.

If a manufacturer produces a product which exhibits superb quality and performance and has firmly established itself as a premier brand, its existence will not be shaken even if its massive account window-dressing or some serious misdeeds over several years were revealed.

But when a fraudulent financial statement by a service provider were made public, it could be fatal because trust is an integral part of its operation. This applies to those in the financial sector, including central banks.

Once people lose trust, confidence or faith in a central bank, its paper currency which is not backed by any tangible asset will be rendered to its intrinsic value; i.e. zero.

(Commercial banks' FX, LIBOR and other market riggings do not seem to have dented the public's confidence in them at all, probably due to the media's reluctance to demonise their best clients. The banks have paid huge fines, but no bankers have been sent to jail. Central banks are not even questioned for their manipulations.)

While mainstream media describe the BoJ's massive QE as 'bold', 'unprecedented' or 'unconventional', one should not be fooled by such rather plausible adjectives. In reality it is nothing but an aggressive devaluation of the Yen by enormously monetising public debt. Considering the fact that it was instigated by the Fed, it should be called a 'masochistic currency injection'. Also, its ultra low interest rates policy over the years has punished savers and made the act of saving meaningless. The Bank is no longer a guardian of a currency but a destroyer of currency value. Furthermore, it has been buying equity and real estate ETFs. It has distorted all the markets which consequently have lost their price discovery mechanism. Its operations have made economists and analysts' debates and discussions over economic fundamentals useless. Investors have been totally sidelined. Such an 'unprecedented' situation has now become a norm, and market participants feel paralised.

Close observations of his body language at press conferences are telling me, 'None of you has a clue about what we have been up to'.

One downgrading after another will come at a very convenient time just before the Governor will have to contemplate a change of the policies and thereby admit his failure. For a seriously vicious cycle will be triggered: the Yen will be sold massively in the markets, and this will jack up the dollar and Euro. Not just hedge funds and bank traders but institutional as well as private investors will join the trend.

The stronger dollar and Euro will sink the global economy to the bottom. China and India will not be left unscathed. Then whatever Governor Kuroda says will be seen as pie in the sky.

The BoJ will then use the foreign reserves to stop the Yen's fall. This will invite further Yen selling. Now it will be taken as a one-way bet. This will present a perfect opportunity for China to dump the Treasuries they hold.

Tokyo may be tempted to follow, but even in such a crisis it will not go for any options which might upset Washington. On the contrary, the much weaker Yen will bring about high inflation which is exactly what the team is secretly longing to see. Will it ask the NY Fed to send Japan's gold back to Tokyo like Germany has? Probably not!

When the Yen is devalued more than 50% against the other major currencies, the inflation will reach a double-digit level, far higher than the BoJ's target. The market interest rates will also race higher. The central bank will be forced to raise rates to defend the Yen and to tackle inflation but be way behind the curve. Would a weaker Yen lift the stock market? No more! It will collapse along with the bond and currency markets.

Higher interest rates will make the government's debt repayment capacity untenable. Japan will be pressed to default on its debt. Then the Bank of Japan will directly finance the government debt. The media will be preoccupied with reporting the rapidly happening chain of events and forget all about what had caused it in the first place and who was responsible for it.

Such external triggers as downgrading the JGB and the Yen selling, and then unstoppable inflation and interest rate hikes, and ensuing confusion, crisis and panic, seem to have been all designed and contrived by the government and the BoJ, and make them evade their responsibilities by demonizing hedge funds, short-term traders, speculators, etc. Putting blames on external forces is a usual strategy when the authorities aim to get themselves off the hook.

The government's plight will be seen as an unfortunate and unintended consequence which will give it a perfect opportunity to place a nationwide bank account freeze and implement asset tax. With 'My Number', a new electronic ID system already being operative, it can seize people's assets far more quickly than in 1946, and the confiscation will be completed within 12 months.

It is now the turn of the BoJ: just before the bank account freeze being lifted, it will issue new banknotes. It may even carry out redenomination. The old Yen10,000 note will be replaced by a new Yen1,000 one which will reduce the nation's wealth to one-tenth. The new Yen's purchasing power will shrink by the same degree. The BoJ might have already chosen a design of the new notes.

If the central bank is not going for a currency name laundering, the new Yen may have to be anchored to such tangible assets as gold, silver or land. In any case, Mr Kuroda will have to go to save the Bank's confidence.

America to emerge as a white knight?

Japan's extraordinary crisis will spread to the rest of the world, and the global economy, the current monetary and currency system will be violently shaken.

The whole world will be in turmoil, since all the fiat currencies are essentially the same: i.e, nothing but paper. This will send gold and silver prices sky high. The only fiat currency to survive could be Swiss Franc.

The Yen denomination will inevitably lead to a review of the IMF's Special Drawing Rights of which the Yen is a composite currency. Even without the denomination, the post-Breton Woods system will have to be reset. This will give Washington a perfect opportunity to introduce a new global currency system, claiming that it is the time to rescue America's 'best friend'.

After the Abe administration successfully legislated the new security law as promised, last October Washington gave the Prime Minister a little reward of being the first sitting Prime Minister on board an aircraft carrier, USS Ronald Reagan. It sent a strong message to the world that Japan is now even more firmly under its wings.

While China and Russia are jointly steadily chipping away the dollar hegemony, Germany, Saudi Arabia, Israel and even Britain are slowly and carefully distancing themselves from the US. Washington cannot afford to unleash Japan to the other side.

Unlike the previous crisis in 2008 which originated in the US, this chaos will be seen as caused by the Japanese policy failures. Poor Japan may even draw some sympathy from the rest of the world. It will then be a well-prepared stage where America is supposed to perform as a hero, and offer Japan some technical as well as financial aid under a new global monetary and currency system it has prepared.

It all looks designed and instigated by Washington and Wall Street.

Connecting the dots: It is all about defending the dollar

Major events we have seen in the last 24 months or so, such as Putin's initiative to

destroy Syria's chemical weapons, the coup d'etat in Kiev, Putin's annexation of Crimea, the economic sanctions against Russia, the more-than-50% decline of the oil price, the commodity market collapse, the Bank of Japan's QE expansion, the surge of the dollar, the Swiss National Bank's Swiss Franc de-pegging to the Euro, currency devaluations and monetary easing by more than 20 countries, the ECB's QE, the never-ending bombings and fighting among the various armed groups in the Middle East, China's launch of the AIIB and NDB, the Greek crisis, recurrent talks of the US interest rates normalization despite America's yo-yo economy and the Fed's final decision to raise interest rates, manipulation of the gold market, the rapidly shrinking US shale oil industry and its junk bond market, the conflict in Yemen, the Iran's nuclear deal, China's economic slowdown and the RMB devaluation, the mass migration of refugees into Europe, the Volkswagen's emission scandal, Russia's direct military assistance to Syria's Assad regime, Saudi Arabia and Israel's closer talks with Kremlin, Britain's dignified and yet unashamed courting to China, do not look entirely unrelated.

Two opposing political forces appear to be at play in the US: those who want to retain its '*exorbitant privilege' and those who are willing to accept multilateralism. This division could explain America's apparent lack of cohesive international policies which is giving rise to the strong resistance by China and Russia.*

America was not even involved with the Minsk peace talks. The US navy has now taken out the only aircraft carrier from the Persian Gulf. When the Iran nuclear deal was struck, John Kerry, the Secretary of the State was standing at the far left in the commemorative photo. Furthermore, at one forum in August, he warned '*If we turn around and nix the deal and then tell [US allies], 'You're going to have to obey our rules and sanctions anyway,' that is a recipe, very quickly for the American dollar to cease to be the reserve currency of the world."*

Obviously his comments were primarily directed toward the Congress but clearly manifest Washington's current dithering. And some American elites may be recalling the Suez Crisis in 1956 in which Britain, along with France, had to reluctantly admit the end of the Empire. The Obama Administration's recent tentative strategic shift away from Israel looks like a notable reflection of such recognition.

America's supreme military power will be shaken by no nations any time soon but cannot be maintained without 'exorbitant privilege' the US has been enjoying. It is also true that the very 'exorbitant privilege' cannot be maintained without its overwhelming hard power. And now this privilege which financially supports its more-than-100 military bases scattered around the world and ever-increasing Pentagon budget is now openly challenged by China and Russia, and covertly and quietly questioned by the rest of the world…except Japan.

When Japan falls into serious monetary and economic troubles, the Empire will strike back and come to rescue the drowning 'lap dog'. Japan's self-inflicted misfortune, which is a result of blind endeavour to please the Master, may provide some breathing space to the US which seeks a graceful retreat. However, as history shows, once an empire starts to go downhill, it will never regain its zenith. This time will never be like 1944 when it emerged as the unquestionable super power. Without a dominant leader, the world will then have to experience several years of instability until some equilibrium is found.

We are constantly bombarded with enormous volume of economic and market data, from second-by-second, minute-by-minute, hour-by-hour and day-by-day records, week-on-week, month-on-month, quarter-on-quarter to year-on-year statistics and so forth. Media sell us these products 24/7 365 days with comments and analysis. And our work is often assessed quarterly. This makes us short-term creatures. We tend to assume Washington is no exception.

When it comes down to grand national strategies, however, the timeframe has to be extended considerably. Even seemingly 'fast and furious', quick-buck-seeking Americans put a long-term thinking cap on. For instance, in 1904-05 the US Navy started to develop 'Plan Orange', a first warfare plan to defeat Japan. It was amended several times over the years but executed throughout to 1945 largely based on the original strategy. They also developed Plan Black against Germany, Plan Grey against Italy and even Plan Red against Britain.

Japan, a submerged Black Swan

Japan's relentless 2-decade-long deflation and stagnant economy, weak domestic demand which shows no signs of sustained recovery, the most intoxicated economy with the BoJ's unprecedented debt monetization, the hollowed-out manufacturing sector and delaying decisions to tackle the demographic problems, etc. are pushing her to the brink of collapse. She has already submerged and been facing a slow death.

Notwithstanding, Japan is still the number three in terms of GDP, the number two of the IMF's voting percentage, the Yen is the third in the SDR weighting and one of the most widely traded currencies, the fourth largest shareholder of the European Bank of Reconstruction and Development after the US, Germany and France, and above all, along with China, the largest holder of the Treasuries.

The normalcy bias and lack of lively debates are the biggest risks. There will be no winner in the currency devaluation war, and yet the anachronistic mindset that the weaker-Yen-driven export will be a cure-it-all is firmly set in its DNA. When the slow death turns into a sudden death, the rest of the world will not be left unaffected.

There is no doubt the world is rapidly approaching a major turning point in history. Actual Yen exchange rates, inflation, interest rates and denomination numbers are hard to predict and beyond my speculation, and I could be wrong about the timing and order of the events. The Yen could appreciate at some point in time. But what I described above looks like what the government and the central bank are colluding to work out.

Japan could become a true leader if she would present the rest of the world an innovative, out-of-the-box model of the government-private sector interaction and sustainable management of economy and public finance.

She is now standing at a crossroad of continuing a journey laid out by Washington or taking a yet-to-be-explored path, and she seems to be unable to think of the latter which will require serious and courageous discussions about what her national interest of next 50 years should really be.

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