Puzzle circular: Japan's post-1989 debt bubble crash depression - seems more the template for the coming Depression rather than USA 1929.
31/8/2020

"**History does not repeat itself but it rhymes**."   This is (in effect) one of the things that Ray Dalio has been regularly reminding us of over the last year or so. As Ray regularly points out, The economic period that he are heading into, is something that the world economy has been through a number of times over the last 4-500 years, and their are a "standard set of tools" that are wheeled out each time to deal with these crises. And in that regard, we can know the sorts of things that are likely ahead in broad terms at least.

Variations that occur between each cycle, will happen as a result of different emphasis in how these economic tools are used, how those economic tools including "how aggressively" they use each of these tools and how precisely they apply each of these tools. For example, very different outcomes would occur if Modern Monetary Theory deficit spending was focused on politically-driven outcomes vs fundamental economic outcomes (such as infrastructure spending that produces a great return on investment for tax payers).

The reason that I am starting to feel that the Japanese post-1989 trajectory (http://puzzlefinancialadvice.com.au/2020/Core/Japanese_asset_crash_post_1989_200716.pdf) is a better template than the US post-1929 crash (http://puzzlefinancialadvice.com.au/2020/Charts/1929_US_share_market_crash_and_after_200306.PNG
http://puzzlefinancialadvice.com.au/2020/Charts/1929_US_share_market_crash_and_after.PNG) is because:

- Post 1929, in the period 1929-1932, the US government really did not do much to counter the crash. The stimulatory measures really started to kick in until Roosevelts's New Deal (https://en.wikipedia.org/wiki/New_Deal) from 1933. And so the 1929-1932 crash was pretty devastating ..... and basically, it was "free market" ..... if you were going to fail, you were allowed to fail.
- By contrast, in Japan post 1989, the Japanese government would not let their major highly indebted companies fail.
  - https://en.wikipedia.org/wiki/Zombie_company
  - https://www.bis.org/publ/qtrpdf/r_qt1809g.pdf
  - The problem with this strategy of not letting these highly indebted companies fail is:
    - it works against the principal of creative destruction https://en.wikipedia.org/wiki/Creative_destruction , which is central to long-term economic vigour is capitalist societies. That is, weak companies need to be allowed to fail, so that they release resources back into the economy so that vigourous new companies can use, thus restoring vigour to the economy.
    - thus, allowing these "zombie companies" to limp on, is a major drag on economy vigour and a major drag on economic recovery.
    - And hence, Japan's share market and property markets did not hit their "final bottom" until 2009, 20 years after the crash commenced.

Now fast forward to our current economic crisis.

- You will note that most developed world governments have rapidly implemented massive fiscal deficiit spending.
    - And this spending is seeking to prop up business - seeking to stop businesses from failing
    - And seeking to prop up consumers - seeking to stop them defaulting on their massive mortgage debts - in effect, governments are subsidising consumer spending, which is indirectly supporting businesses.
    - Note: This massive fiscal defciit spending is not productive investment - it is simply pulling forward future spending to try to prevent the economic system from failing. That is, the tax payers will NOT see any return on investment from the vast bulk of this fiscal deficit spending ...... while massive government debt is being incurred.
- To me, this has many similarities to what the Japanese government tried to do post 1989 - and very unlike USA 1929-1932.   So does that mean that many western share and property markets over the next 20 years will look like this? http://puzzlefinancialadvice.com.au/2020/Core/Japanese_asset_crash_post_1989_200716.pdf   Of course, I do nto know the answer to that ... but at least it is worth thinking about. And remember - "**History does not repeat itself but it rhymes**."

Note: We are already starting to see the rise of Zombie companies in this crisis.

- https://www.washingtonpost.com/business/2020/06/23/economy-debt-coronavirus-zombie-firms/   20/6/20
    - "**Nearly one in every five publicly traded U.S. companies is a zombie, according to data compiled by Deutsche Bank Securities**."

Other things of interest.

- This interview referred to by **Jon Pain** is worth looking at https://www.abc.net.au/news/2020-08-28/australians-with-stocks-in-banks-may-need-to-rethink/12604616
- This interview of **Ray Dalio** is worth watching ..... https://www.youtube.com/watch?v=3IGP03REEXQ "Ray Dalio Says Capital Markets Are No Longer 'Free Markets'" 2/7/20
- **Chris Joye** 28/8/20 makes some comments similar to those of Ray Dalio here https://www.afr.com/wealth/personal-finance/why-the-fed-s-existing-framework-was-perfectly-fine-20200828-p55q64   The title of this article in teh AFR on Saturday was "**The Fed's new totalitarian regime**".
    - "**It (this new regime) also reveals the central bankers' essential conceit: that they don't want markets to clear, or asset prices to gravitate to their natural levels**, in the absence of extreme policymaking interference. With a 24-hour news cycle and real-time information transmission, this is too politically painful. No, **the central**

bankers increasingly want to control the price of everything from the goods and services you consume to the stocks and bonds in your portfolio and the value of the home that provides a roof over your head. The central bankers’ conceit is betrayed by a contradiction in the logic that the Fed employs to rationalise ever-cheaper money, ever-greater asset purchase programs, and ever-more pervasive interference in the way markets would allocate scarce resources.

- "But with the cover of a one-in-100-year pandemic that has sent unemployment sky-rocketing to over 10 per cent, the central bankers’ reflex to control everything has been given a licence to thrill in what could morph into a 21st-century form of neo-statism."