

Weekly Commentary 17 – May 2023

Should we be worried about indebtedness in Japan, the US and China?

There are reportedly three countries with a high level of indebtedness, as represented by the ratio of that debt to GDP.

These are Japan, the US and China, the top three economies in the world. Economists tend to write a lot of bearish commentary on these countries regarding their debt. However, should we really be worried about them?

As a matter of fact, that countries can have a heavy debt burden is nothing new. There have always been countries which are banana republics, with their financials so bad that they spend more than their tax revenues leading to excessive borrowing to cover the deficits. Even worse, some countries borrow in foreign currencies, exposing them to foreign exchange volatility. Some go bankrupt, never to recover; or deteriorate to a permanent lower level of national poverty. Latin American countries have long been suffering from this problem. Some Asian countries were also battered similarly during the 1998 Asian Financial crisis. And during the 2008 GFC, there were also European countries, such as Iceland and Greece, that suffered the same plight.

So, with all the talk about the national debts of the three largest economies in the world, is the global economy in deep trouble?

Of course, all those which got into trouble cited above were mostly from the Global South, generally poor by First World standards. Now, the three countries that are currently being scrutinized by economists are the top three economies in the world. And the common question is whether they will survive their own debt. Let examine each of them one by one.

China:

As of 2020, China's total government debt stands at about RMB46 trillion, about (US\$7 trillion), or roughly 45% of GDP. There may be, according to Standard and Poor, another RMB40 trillion (US\$5.8 trillion) of off-balance sheet debt at Chinese local governments. State-owned industrial firms and some banks may also owe some money raised from bonds issued by foreign investors.

The concern over Chinese debt actually evolved over the last ten years. From about the early 2010s, there was a clamp-down on lending to private businesses, and credit was not readily available to small and medium business borrowers. This led to the growth of a shadow banking system in which SMEs would borrow from various intermediaries that are actually

related to the commercial banks. And of course, there were also actual loan sharks. The average lending rate within this shadow banking system starts from about 20-30 percent, with the intermediaries often known as trust companies offering deposit rates starting from 9 percent. This shadow banking was widespread in China, posing risks to the financial system. But since the initial concerns about ten years ago, these seem to have melted away and no crisis emanated from it.

Then the concern over high levels of leverage shifted over to the real estate sector. From about three years ago, the central government itself was concerned about the real estate sector and imposed various criteria for judging if any real estate developer is considered liquid enough to continue operating. As a matter of fact, the real estate sector actually acquired some of the tactics of the former shadow banking system – some of the property firms were setting up financial subsidiaries that were accepting deposits with rates in the low teens and using the funds to build their projects. One of these was the largest developer in China called Evergrande. As usual, too much of a good thing leads to indigestion. That became the Evergrande crisis in which it was feared that the collapse of Evergrande would lead to a real estate crisis of Lehman proportions. At that time, I wrote a commentary that predicted such a crisis would not happen. It did not and it seems that that crisis has also passed.

There is another frequently cited problem regarding indebtedness in China – that of the Local Government Financing Vehicles (LGFVs). For those who are not familiar with the term and the concept, it is something that has evolved from a property sector on steroids. A LGFV is a funding mechanism by a local (say provincial or city) government in China. It is usually an investment company that sells bonds in the securities markets to finance real estate development and other local infrastructure projects. It evolved when local governments were not able to raise funds by selling land (usually farm land at near zero price to be turned into residential or commercial properties priced at market), which was the easiest thing for these governments to do when the real estate market was hot. The problem was that the LGFVs had challenges, including the need to balance local budget realities with decreased revenues, increased service demands and the costs of unfunded state and central government mandates. And as things evolved, the LGFVs have taken on more debt coupled with a decline in their ability to service it. And this has sparked concern.

This is explained further in the Reuters article below:

Analysis: China's debt-laden local governments pose challenges to economic growth, financial system

By [Engen Tham](#), [Xie Yu](#) and [Ziyi Tang](#)

SHANGHAI/HONG KONG, March 10 (Reuters) - China's push to revive the economy this year by increasing infrastructure spending while warding off financial risks is facing headwinds from massive local-government debt, which is more than \$9 trillion and growing.

As debt obligations mount, some local governments are pushing banks to extend maturities and cut interest rates, sources said. Local Government Financing Vehicles (LGFVs) have 5.5 trillion yuan

(\$790 billion) worth of onshore bonds coming due this year, the highest since 2021, according to Fitch.

A sharp drop in income from mainstay land sales and fewer options for raising fresh funds have fuelled concerns about LGFVs' ability to meet debt obligations and its impact on the broader banking sector and markets.

The ability of fiscally stretched local governments to follow through on spending will also be a key test for China's modest economic growth target of around 5% this year, as LGFVs play a key role in funding infrastructure projects, one of the biggest growth drivers for the world's second-largest economy.

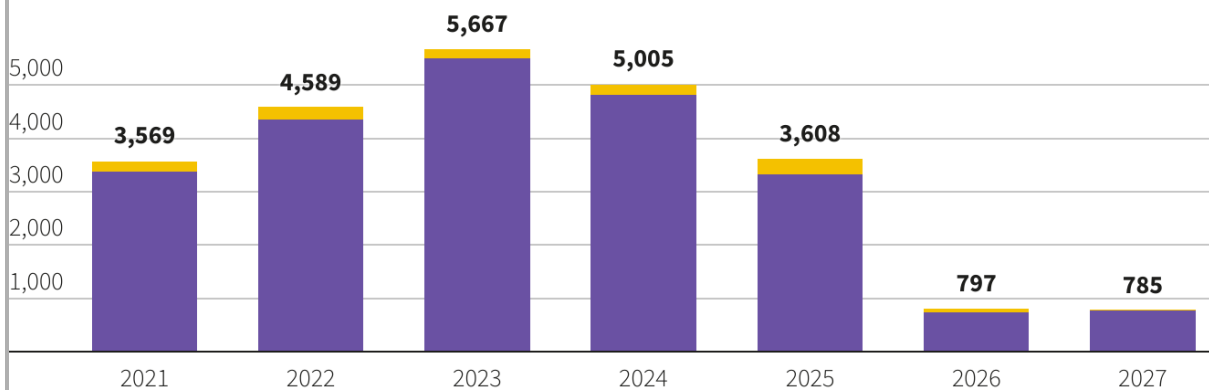
So far, they have been no public reports of an LGFV default, but some have had loans extended.

China's high local government debt

Chinese Local Government Financing Vehicles (LGFVs) face big repayment pressures.

LGFV's bond maturities (in bln yuan)

● Onshore ● Offshore



Note: Numbers are rounded off

Source: Fitch Ratings | Reuters, March 10, 2023 | By Kripa Jayaram

Reuters Graphics

"BLACK HOLES"

"The LGFVs have become the black hole of the Chinese financial system. They have been used to fill the gap between local government revenue and expenditure," said Andrew Collier managing director at Orient Capital Research.

"They have little or no profit, and cannot pay back their debt owed," he said. "I expect many LGFVs to collapse, or to be quietly recapitalized by banks, putting some rural banks and some bondholders at risk of defaults."

The total debt of China's LGFVs has swelled to a record 66 trillion yuan (\$9.5 trillion), equivalent to half of the country's economy, from 57 trillion yuan last year, according to an International Monetary Fund (IMF) report last month.

Concerns about their worsening credit profile come as the government is trying to lift the economy from the grip of a property debt crisis in the last couple of years, which saw a number of developers default on their debt and land sale revenues plummet, forcing Beijing to roll out a slew of supportive measures.

"LGFVs are under considerable pressure on debt repayment this year, because their income is often associated with real estate and land sales," said Wang Tao, chief China economist at UBS.

CAUTIOUS LENDERS

Chinese Premier Li Keqiang listed "preventing and defusing local government debt risks" as one of the major tasks for the government in the upcoming year, when he delivered the government report on Sunday as China's two sessions kicked off.

That priority comes as some Chinese banks with exposure to LGFVs are increasingly getting requests to extend their near-term maturities by as much as six months and reduce interest rates, three sources with knowledge of the matter said.

The sources, who declined to give details, could not be identified due to the sensitivity of the matter.

Chinese banks and other financial institutions have been cautious on new lending to LGFVs over the past years.

In recent months, some state-owned banks, asset managers, and insurers have been looking into their portfolios to screen LGFV borrowers with weaker creditworthiness and dispose them, separate financial sector sources told Reuters.

Faced with tighter credit criteria at home, LGFVs turned to offshore markets and raised a record \$39.5 billion via dollar bonds last year, according to rating agency S&P. Offshore branches of Chinese financial institutions have been major buyers of the bonds, industry sources said.

Since late 2022, however, authorities have sharpened scrutiny of LGFVs dollar bond issuance. The National Development and Reform Commission (NDRC) turned down requests from units with lower credit ratings, said two separate sources with knowledge of the matter, as part of its efforts to stem financial sector risks.

The NDRC and the China Banking and Insurance Regulatory Commission didn't immediately respond to requests for comment.

DEFAULT WORRIES

A deterioration in capital-market access can increase refinancing risk and deepen the liquidity crunch for the LGFV sector, Fitch Ratings said in a report last month, adding units in less economically developed regions are more at risk.

The worsening outlook for LGFVs has also made some shadow banks -- lenders for sectors that are unable to tap bank funding directly -- worried about their exposure to such units and averse to fresh lending.

"LGFVs used to be financed in the shadow banking (sector) but increasingly it has moved to the onshore bond market and, in some cases, offshore," said Alicia García Herrero, chief economist for Asia Pacific, at Natixis.

"It seems clear to me that a number of projects may default with consequences for bondholders, especially offshore ones."

Some analysts believe that Chinese authorities would avoid large scale of defaults by LGFVs as that would make debt market access tougher for both public and private issuers at a time when efforts are being made to revive the economy after the dismantling of three years of tough COVID-19 measures.

"LGFV debt itself as a share of GDP is still manageable at this stage. The key issue is to stop the fast growth and avoid default to trigger panic in the market," said Zhiwei Zhang, chief economist at Pinpoint Asset Management.

Reporting by Engen Tham, Xie Yu and Ziyi Tang; Editing by Sumeet Chatterjee and Kim Coghill

There is no question that the indebtedness in China can be a problem, but it seems that the central government both has cognizance of the problem, as well as the financial resources to handle it. The size of the problem is not so large that it can overwhelm the country and the resumption of GDP growth this year will both generate the tax revenues to help pay down debt as well as lead to a resurgence of the property market which will solve the problem at source. The big difference between China and other countries that have been overwhelmed by their debt problems is simply the fact that China is an economy which generates savings at the world's highest rates at 45%. Basically, when you save lots of money, you can pay off debt. That is why I don't expect China to be adversely affected by its debt problems.

Japan:

The indebtedness problem in Japan is huge. The country has the largest national debt in the world, at 263 percent of GDP. As at Dec 2022, this debt is estimated at US\$9.8 trillion. The National Debt of China at less than 50% of GDP is small by comparison.

This humongous debt has arisen due to the country's asset price bubble collapse after 1990, when it entered a prolonged period of economic stagnation described by many as the "lost decades", when GDP growth fell significantly throughout that period. To counter that slowdown in economic activity, the government set out in the early 2000s to stimulate economic activity through monetary policy, which was the first instance in the world of quantitative easing. By 2013, Japanese public indebtedness exceeded one quadrillion yen (or US\$10.46 trillion), about double the country's GDP at that time, and already the world's largest debt to GDP ratio.

Japan's national debt continued to expand in response to a number of challenges, including the GFC in 2008. Then in 2011, there was the Fukushima earthquake and tsunami which led to an expansion of the debt. The next blow was the covid 19 pandemic response, leading to a further ballooning of the debt.

A lot of these problems are self created. Take a read of the following Wall Street Journal article :

Japan Adopts View That Huge Government Debt Doesn't Matter

Shinzo Abe's camp says deficit is misunderstood, but top finance officials seek balanced budget, likening the nation to a ship heading for an iceberg

By [Peter Landers](#) and [Megumi Fujikawa](#)

June 7, 2022 7:15 am ET

TOKYO—When Japan's leader released his economic vision Tuesday, he left out an important date.

Prime Minister Fumio Kishida deleted a pledge from earlier government statements calling for Japan's budget to be balanced by 2025. And he declined to give a date by which Japan would do something to lower its government debt, while promising to significantly increase military spending.

It is a bold stance, given that the debt tops ¥1.1 quadrillion or \$8.3 trillion at current rates, more than twice the size of the economy. The omission marks a high point in the influence of a group within the ruling Liberal Democratic Party that has embraced a view attributed to former U.S. Vice President Dick Cheney: "Reagan proved deficits don't matter."

Many countries added heavily to their debt during the Covid-19 pandemic and a global debate is under way about whether they need to cut back now. Japan's experience is likely to be instructive because it has the [highest government debt](#) among leading economies and at the same time one of the most powerful factions arguing that the world's understanding of debt is flawed.

As the cost of groceries, clothing and electronics have gone up in the U.S., prices in Japan have stayed low. WSJ's Peter Landers goes shopping in Tokyo to explain why steady prices, though good for your wallet, can be a sign of a slow-growing economy.

This camp, led by former Prime Minister Shinzo Abe, says Japan has room to spend a lot more—including on its defense budget to counter China. The other side of the argument is spearheaded by a vice finance minister who says the country is like the Titanic, heading for a massive iceberg of debt.

Some members of the free-spending group have embraced a maverick American economic school of thought known as modern monetary theory, or MMT. It says countries that issue debt denominated in their own currency, like the U.S. and Japan, won't ever need to default on debt because [they can simply print more currency](#) to pay it back.

"Trying to achieve fiscal balance is meaningless per se," said Shoji Nishida, a member of Parliament's upper house from the Liberal Democratic Party who keeps a book by American MMT guru Stephanie Kelton on his desk. "The reason Japan is in a mess is because of the mistaken view by the Ministry of Finance that there is a limit to fiscal resources."

In recent speeches, Mr. Abe has echoed such theories. He described the central bank, the [Bank of Japan](#), as a subsidiary of the government and said any expiring government debt could simply be rolled over into new debt. The Bank of Japan already owns nearly half of the government's debt.

This debt downplaying—or denial that it is really debt at all—alarms others in the ruling party and career officials at the Ministry of Finance.

They say every yen spent by the government ultimately has to be recouped through taxes or other revenue—in other words, that outsize borrowing can't go on forever. Now that the worst of the pandemic is over, they say Japan needs to rein in debt soon.

Last fall, vice minister of finance Koji Yano published an article in the monthly magazine Bungei Shunju denouncing the MMT-oriented camp and comparing Japan to the Titanic.

"I don't know how far until we crash into it, but we can be sure that Japan is barreling toward an iceberg," Mr. Yano wrote.

More recently, the weak yen—which fell to another 20-year low against the U.S. dollar this week—has added to concerns that relying on the Bank of Japan to buy government debt at low interest rates could undermine confidence in the currency.

Mr. Nishida, the MMT advocate in the ruling party, called Mr. Yano a con artist, saying he was trying to scare people to preserve the ministry's longtime power over the nation's purse strings. Mr. Yano declined to comment through a spokesperson.

Mr. Yano's argument has won support from many in the ruling party, including former Finance Minister Fukushiro Nukaga.

"I believe it is our role and responsibility to maintain trust in our finances and trust in the currency," Mr. Nukaga said in an interview.

He said Japan would eventually need to look at raising its national sales tax, which currently stands at 10%. An increase "could actually promote greater consumption by erasing worries about the future," he said.

Mr. Nukaga leads a ruling party study group that has competed with another group, led by MMT advocate Mr. Nishida. Their tussle came to a head in recent weeks as the Kishida government weighed whether to uphold earlier pledges to get the budget into primary balance by 2025. Primary balance means outlays match revenue, excluding interest payments on government debt and revenue from new issuances.

The final language nodded to the need for healthier finances but mainly sided with the free-spending camp by leaving out the 2025 date. That clears the way for a generous increase to the defense budget next year. Eventually the ruling party wants [military spending to reach 2% of gross domestic product](#), nearly double the current proportion.

MMT advocates say that while governments such as Japan's have no limits on issuing debt, they do have to deal with the risk of inflation if spending outweighs the economy's capacity to produce goods and services. [Japan's overall inflation hit 2.5% in April](#), the highest rate in three decades.

That figure is well below the 8%-plus inflation in the U.S. and it hasn't deterred the pro-spending faction. It blames Japan's inflation on the high cost of imports such as oil and gas and it says new spending on defense isn't likely to overstress the nation's productive capacity.

Mr. Abe, the former prime minister, "is now a full-throated proponent of deficit spending," wrote U.S.-based Abe biographer Tobias Harris [in a recent commentary](#). "If the government can continue to run large deficits, then the government does not have to grapple with a guns or butter trade-off."

There is a huge amount of scepticism about the effectiveness of Modern Monetary Theory. Simply put, the doubters are of the view that you cannot have a free lunch, which is what

MMT promises to deliver. As it turns out, MMT has not worked out for Japan. Growth has not improved over the thirty years of stimulative policy. The national debt just keeps getting larger. And economists around the world have been concerned where this is all leading to.

The good news about Japan is that it is not the first time it has acquired a huge amount of debt – it happened in 1944 during WW2 when the amount of government debt exceeded national income by 260%.

The rapid recovery of the Japanese economy in the post war years cut that debt, as tax revenues enable the government to climb out of the hole. During this time, the Japanese pursued a balanced fiscal policy by prohibiting the issuance of government bonds and by stipulating that the Bank of Japan could not buy government bonds. By 1965 the government started to issue bonds again to cover deficits and over two years, they issued about one trillion yen. After that, the asset price bubble enabled the government not to depend on bonds until 1994 when the economic slowdown was in full force. Since then, government bonds have been issued every year since, due to the slowdown in annual tax revenues during the prolonged recession.

Basically, we can ascribe the growth of the national debt to the deflation that Japan has experienced in the last thirty or so years. Successive administrations, as noted in the Wall Street Journal article above, tried to stimulate the economy using Keynesian deficit financing methods but it has not worked. GDP growth continued to sputter.

The question that economists are asking these days is whether the country is at the limits of borrowing. If there is a limit to borrowing, will the government have the resources to keep the economy buoyant?

Here are my views:

- 1) It is a bad situation – there's no doubt about it. When debt is that high, it limits what the government can do in terms of its financing policies. There is no flexibility of policy.
- 2) Japan is still unlikely to become a banana republic because most of the national debt is owned by the Japanese themselves. Half of it is owned by the Bank of Japan and the rest by Japanese financial institutions and even households. It's like owing money to yourself. None of these will call a default on their own government.
- 3) The rate of interest is very low, close to zero percent. This is not so bad, as debt would not accumulate much under its own weight.
- 4) The inflation problem caused by debt is far less serious in Japan than in the US, because Japan is still in deflationary mode, and it is actually government policy to spark some inflation to stimulate the economy.

- 5) The problem in Japan is therefore not the level of debt but the constraint on the government to keep borrowing to use for stimulating the economy. Japan's problem is the lack of growth, not the existence of debt.

So, it looks like Japan will just trundle along with a low level of growth, a low level of inflation and a humongous debt absorbed by its own population which acts like a shock absorber, and therefore a default is unlikely.

The problem is that the best years of Japan are over. When in the 1990s, Japan was breaking out to be the leading manufacturer of semi conductors, the Americans put a stop to that effort. As such, there is not much spunk in the economy. It has passed the crown of king of consumer goods to China and S Korea; and in electric cars, it is now far behind, even though its manufacturing of cars running on the internal combustion engine is still strong. It recently had a company which wants to open up space travel but that dream crashed on the moon. And in the last twenty years, Japan has gotten new competitors in S Korea and China, against which it is finding hard to beat. It will be tough for Japan to regain its old glory.

The United States:

As it turns out, the loudest concerns are now emerging about the US national debt. Although its debt to GDP ratio is lower than Japan's at 132 percent, the absolute size of this debt is much higher at about US\$32 trillion. The argument is that if Japan can survive this long at over 200 percent of GDP, isn't there a lot of runway for the US to expand its debt?

There is a history to the accumulation of this US\$32 trillion in its national debt. That history tells us whether that debt will keep growing.

Well, almost every administration in the last century has been adding to that burden. Regardless of political affiliation, parties in power have run up the deficit through higher spending and lower revenue collection. Increasing the debt is invisible to the electorate but the alternative, which is either increasing taxes or cutting spending won't get any politician elected. It is the easy way out of tight finances.

We can recount how four presidents and the current one have added to the budget deficit and hence the national debt:

Franklin D. Roosevelt

As the nation's last four-term president, FDR helped Americans weather an abundance of economic crises. His presidency spanned The Great Depression and his signature New Deal economic recovery package helped lift America out of financial rock bottom. But the most significant increase to the national debt was the cost of World War II, which added roughly

\$186 billion to the national debt between 1942 and 1945. Congress added \$236 billion to the national debt during FDR's terms, representing an increase of 1,048%.

Ronald Reagan

During Reagan's two terms, Congress enacted two historic tax cuts that decreased government revenue: the Economic Recovery Tax Act of 1981 and the Tax Reform Act of 1986. These Acts passed by Congress decreased revenue as a percent of the GDP by 1.7% between 1982 and 1990, creating a revenue shortfall that contributed to the national debt increasing 261% (\$1.26 trillion) during his administration, from \$924.6 billion to \$2.19 trillion.

Barack Obama

Over two terms, the Obama administration oversaw both The Great Recession due to the collapse of the mortgage market and the ensuing recovery. In 2009, Congress passed the Economic Stimulus Act, which helped countless Americans save their homes from foreclosure, pumping \$831 billion into the economy. Congressional tax cuts accounted for another \$858 billion added to the national debt when passed by a strong bipartisan showing. All in all, Congressional action increased the national deficit by 74 percent and added \$8.6 trillion to the national debt during Obama's two terms.

Donald Trump

During his single term, Congress passed the Tax Cuts and Jobs Act in 2017, which slashed corporate and personal income tax rates. Considered by many a boon for the wealthiest Americans and corporations, at the time of its passage, the Congressional Budget Office estimated the cuts would increase the federal deficit by \$1.9 trillion.

While the Treasury Secretary estimated that the tax cuts would decrease the federal deficit, the deficit increased from \$665 billion in 2017 to \$3.13 trillion in 2020. The tax cuts drove some of this increase but multiple Covid relief packages were responsible for the majority of the increase.

The federal debt held by the public increased from \$14.6 trillion in 2017 to over \$21 trillion in 2020. Public debt and intragovernmental debt (the amount owed to federal retirement trust funds like the Social Security Trust Fund) make up the national debt. It's the amount of money the U.S. owes to outside debtors such as U.S. banks and investors, businesses, individuals, state and local governments, Federal Reserve and foreign governments and international investors like Japan and China. The money is borrowed to raise the cash needed to keep the U.S. operating. It includes Treasury bills, notes, and bonds. Other holders of public debt include Treasury Inflation-Protected Securities (TIPS), U.S. savings bonds and state and local government series securities.

Joe Biden

The current president occupying the White House is no fiscal conservative. In just two years of his presidency, he has blown the debt up significantly. The total national debt stood at US\$27.7 trillion on the day of his inauguration, and it has increased by over \$3 trillion since then. By the time he finishes his first term, the debt would have increased by \$6-7 trillion and if he makes it to a second term, he will certainly be the guy taking the debt to \$40 trillion.

The national debt continues to grow as it has not for decades. This is the result of this simple concept of spending more money than you have in revenue. Neither political party have been able to reduce the national debt and various presidents have given up the soft option of spending money without having to raise taxes.

The problem is not that the US National Debt is close to the 250 percent or 200 percent where Japan's debt has long been. It is that it will get there very quickly and with the absolute size of that debt facing high interest rates, it may get to exceed Japan's debt to equity ratio in no time.

How do we figure that? Well, the US GDP is currently running at US\$21 trillion so 2 times GDP is 42 trillion. According to Bloomberg, the US budget deficit is currently at \$1.1 trillion in this fiscal half year, which therefore means an annual budget deficit of US\$2.2 trillion a year, assuming no changes in taxation and expenditures. That US\$2.2 trillion includes interest payable on the national debt, which is increasing at 32 percent per year. As such, to get to 42 trillion, it will be about 4.5 years. To get to 250% of GDP, it will take about 9 years. In short, on the current trajectory of income and costs, with nonchalance as public policy, the US will become the most indebted country in the world in less than a decade.

Of course, it does not mean that the US economy will collapse just because it has the largest Debt to GDP ratio. Japan has not collapsed after years of being in that position. But it will mean that the US will face certain consequences which we have seen in Japan in the last few years.

1. Rising debt reduces business investment and slows economic growth. It also increases expectations of higher rates of inflation and erosion of confidence in the U.S. dollar. The US federal government will be constrained by the budget imbalances to insulate the economy from external problems, as we saw was a problem across the world when the Covid crisis hit. Clearly there will be less flexibility to respond to such set-backs. It's like what happens to most Americans – they have no savings to handle an emergency.
2. There is the risk that expanding budgets in the American context, unlike Japan, may lead to inflation. A rising national debt is usually a reflection of budget deficits, which are expansionary. Unless the government is prepared to accept inflation, as Japan's government is set to do, this is not going to be healthy for the economy.
3. As the federal debt rises, the government will have to spend increasing amounts of its budget on debt servicing, crowding out public investments. If the US is short of repairs on existing infrastructure, and cannot build new infrastructure, then a rising national debt will make it worse. And if the government is interested in pursuing programs like the Chips Act to raise the country's competitiveness, there will be fewer resources to do that. There will also be less money for government sponsored R&D, non defence

infrastructure and of course education. Overall, it will lead to declining competitiveness in the long run.

4. There could also be a reduction in private investment. Federal borrowing competes for funds in the capital markets, and as interest rates rise, the private sector will face a higher cost of capital, potentially stifling innovation and slowing new breakthroughs in science and technology.
5. And of course, a rising national debt will definitely constrain the ability of the US to pursue an aggressive defence policy.

Comparing the three countries with a high level of indebtedness, I would say that China's problem is not really a problem at this time. It is using debt at the right level, and as long as GDP growth can keep up, debt servicing won't get out of hand. All the issues that the US faces in having a high level of debt won't affect China.

In the case of Japan, the level of debt has levelled off. It is not growing that much because the level of interest rates in Japan is very low. And it is unlikely to fall much either from current levels as its GDP growth is slow, affected by their adoption of the rules-based order in which the US sits on the top of the totem pole determining what role Japan's economy can play, and by its own domestic problem of a rapidly aging population leading to the retirement of talent and the lack of wealth growing opportunities that comes from a buoyant property market in most young Japanese' lifetimes. Japan's problem is the lack of resources to propel growth, not debt per se.

Of the three economies, the US has the fastest growing debt levels and will catch up on Japan in a few years. The public debt is not the only indebtedness in the economy. The entire economy is heavily leveraged, and the relatively high level of interest rates compared to other times in its history makes it vulnerable.

As such, coming back to the question we posed at the beginning of this essay, I would say that I would be most concerned about the US national debt.

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Un-Influencer in a World full of Hubris

