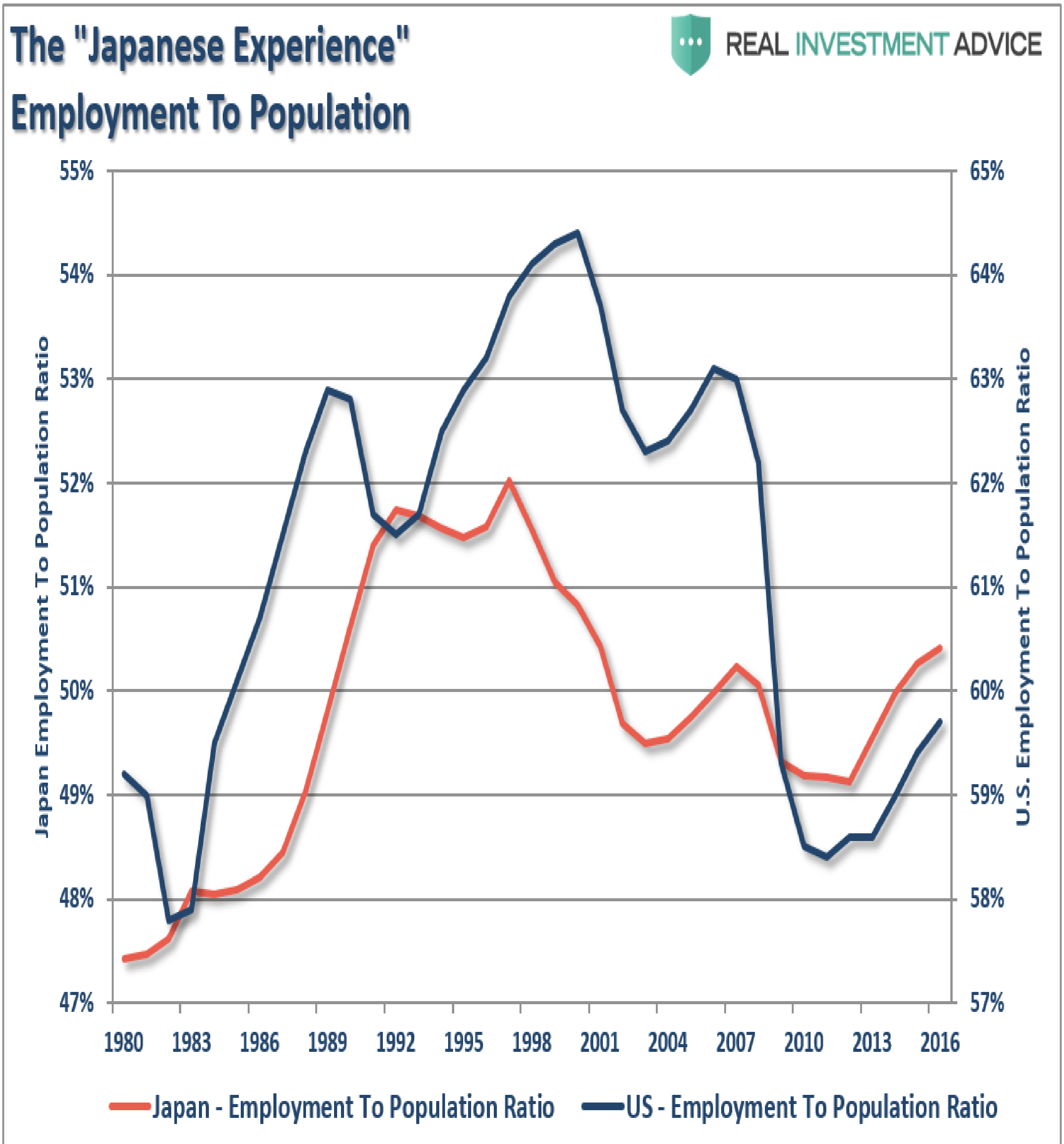
Last week, I discussed the ongoing debt issue in the U.S. with respect to the recent CBO report and the trajectory of debt growth over the next 30-years. The fiscal issues facing the U.S. are nothing new and have been a frequent discussion on this site. More importantly, I have discussed these issues directly with members of Congress, and especially with Congressman Kevin Brady, Chairman of the House Ways and Means Committee, who agree with my concerns yet have been unable, and unwilling, to tackle the *"tough"* issues. While conservatives in Congress talk a great game of fiscal responsibility, the reality is there is little *"will"* to actually be *"fiscally responsible."* While the country today is more politically divided than at just about any other point in history,• *"spending money"* is the one thing that all members of Congress willingly agree to. As I discussed previously, this is the same path Japan took previously.

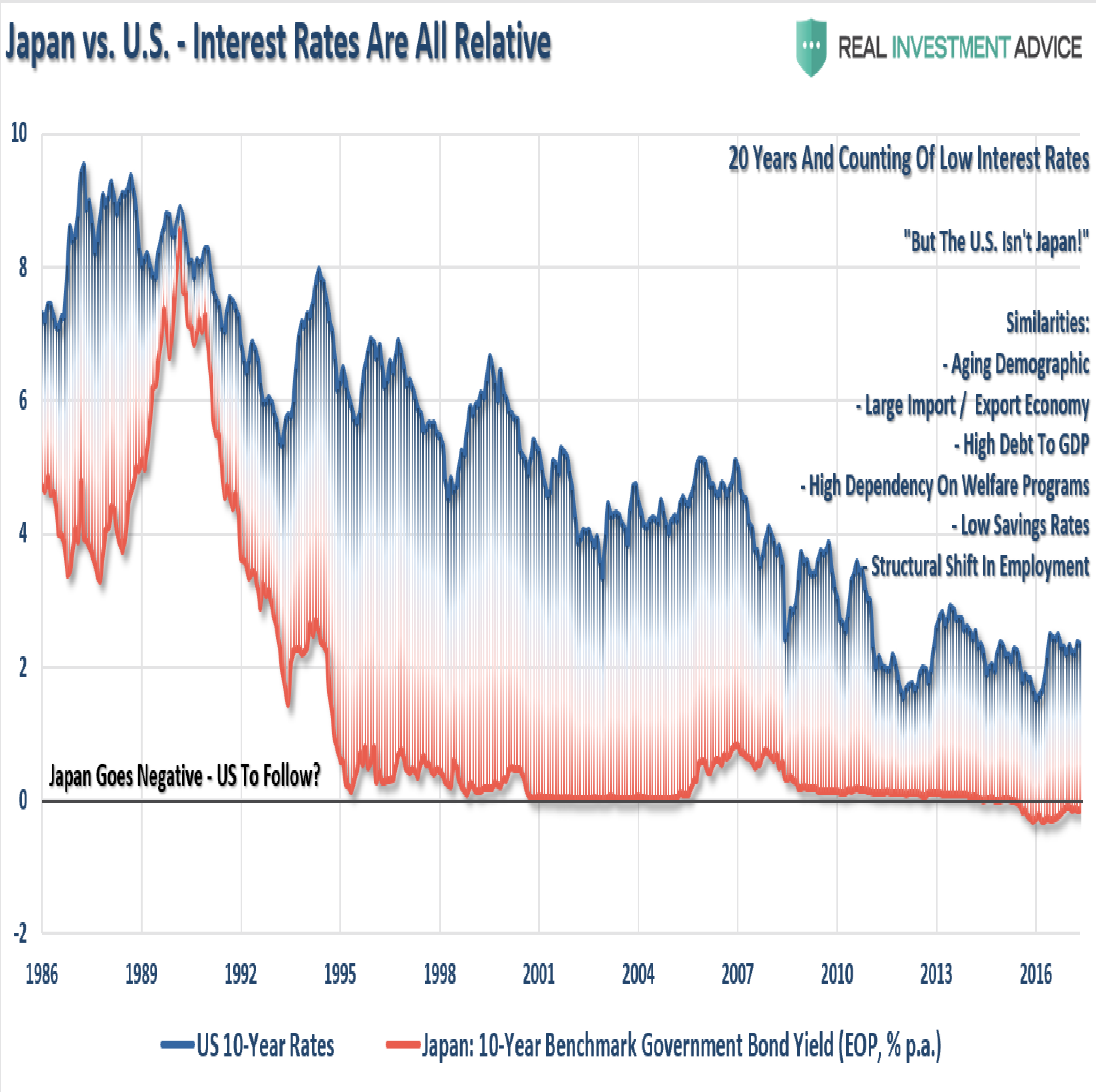
> *"Debt is a retardant to organic economic growth as it diverts dollars from productive investment to debt service.•**The problems that face Japan are similar to what we are currently witnessing in the U.S.:***

- ***A decline in savings rates****•to extremely low levels which depletes productive investments*
- ***An aging demographic****•that is top heavy and increasingly drawing on social benefits.*
- ***A heavily indebted economy****•with debt/GDP ratios above 100%.*
- ***A decline in exports****•due to a weak global economic environment.*
- ***Slowing domestic economic growth rates.***
- ***An underemployed younger demographic.***
- ***An inelastic supply-demand curve***
- ***Weak industrial production***
- ***Dependence on productivity increases****•to offset reduced employment*

The•lynchpin to Japan, and the U.S., remains demographics and interest rates.•As the aging population grows becoming a net drag on•?savings,?•the dependency on the•?social welfare net?•will continue to expand. The•?pension problem?•is only the tip of the iceberg."



> ***"Japan, like the U.S., is caught in an on-going•?liquidity trap?• where maintaining ultra-low interest rates are•the key to sustaining an economic pulse.•****The unintended consequence of such actions, as we are witnessing in the U.S. currently, is the ongoing battle with deflationary pressures.•* ***The lower interest rates go ? the less economic return that can be generated.•An ultra-low interest rate environment, contrary to mainstream thought, has a negative impact on making productive investments and risk begins to outweigh the potential return."***

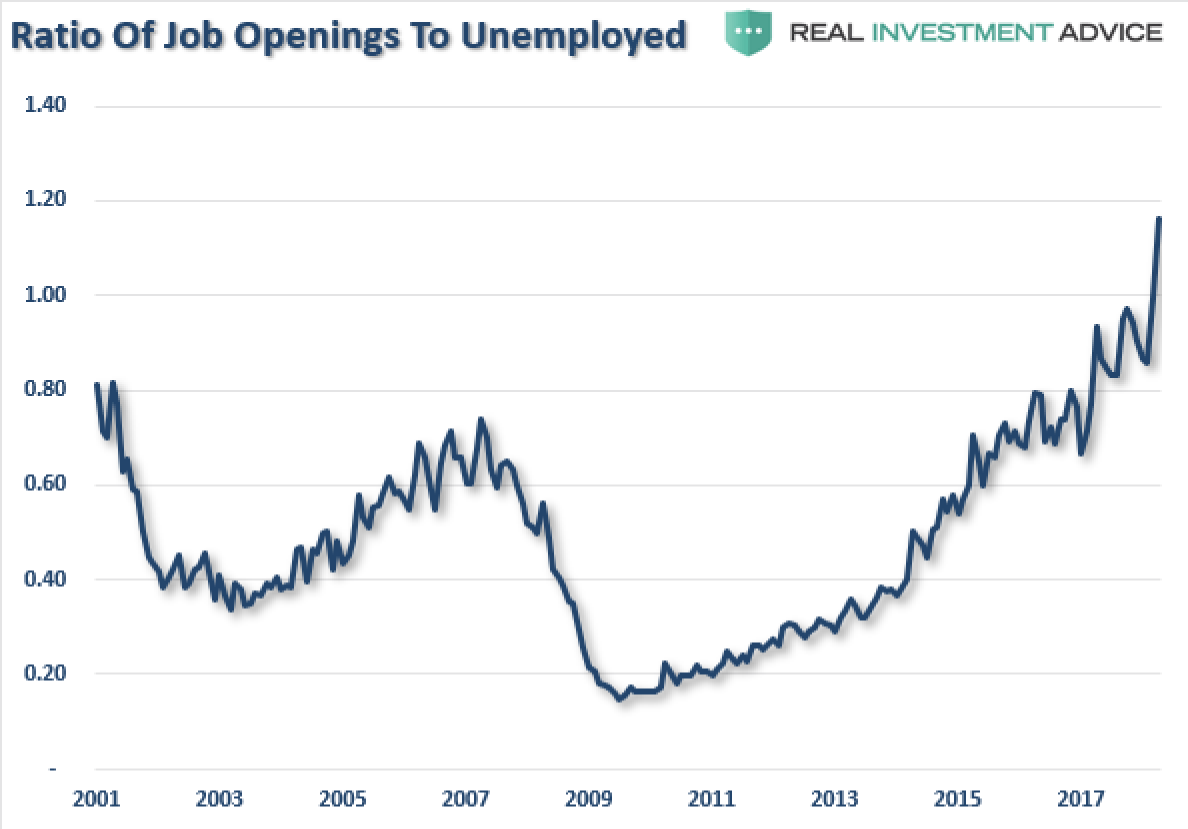


I was reminded of this previous discussion this past week when Tyler Durden discussed a new bill in Japan limiting overtime work to 99-hours a month to cure *"Death by Overwork."*

> *"Recently released government data revealed that* ***Japan?s jobless rate touched 2.2% in May****,* ***the lowest level in 26 years.*** *And as Japan's working-age population dwindles, job openings have outpaced the number of workers available to fill them: As a reference, two months ago,•* ***there were 160 job offers available for every 100 workers seeking a job."***

What got my attention was the similarity to an issue that has stumped economists over the last couple of years - surging job openings that go unfilled. We can restate quote above to apply to the U.S.:

> *"Recently released government data revealed the U.S. jobless rate touched **3.8% in June, the lowest level in 48 years**. And as Japan's working-age population dwindles,*



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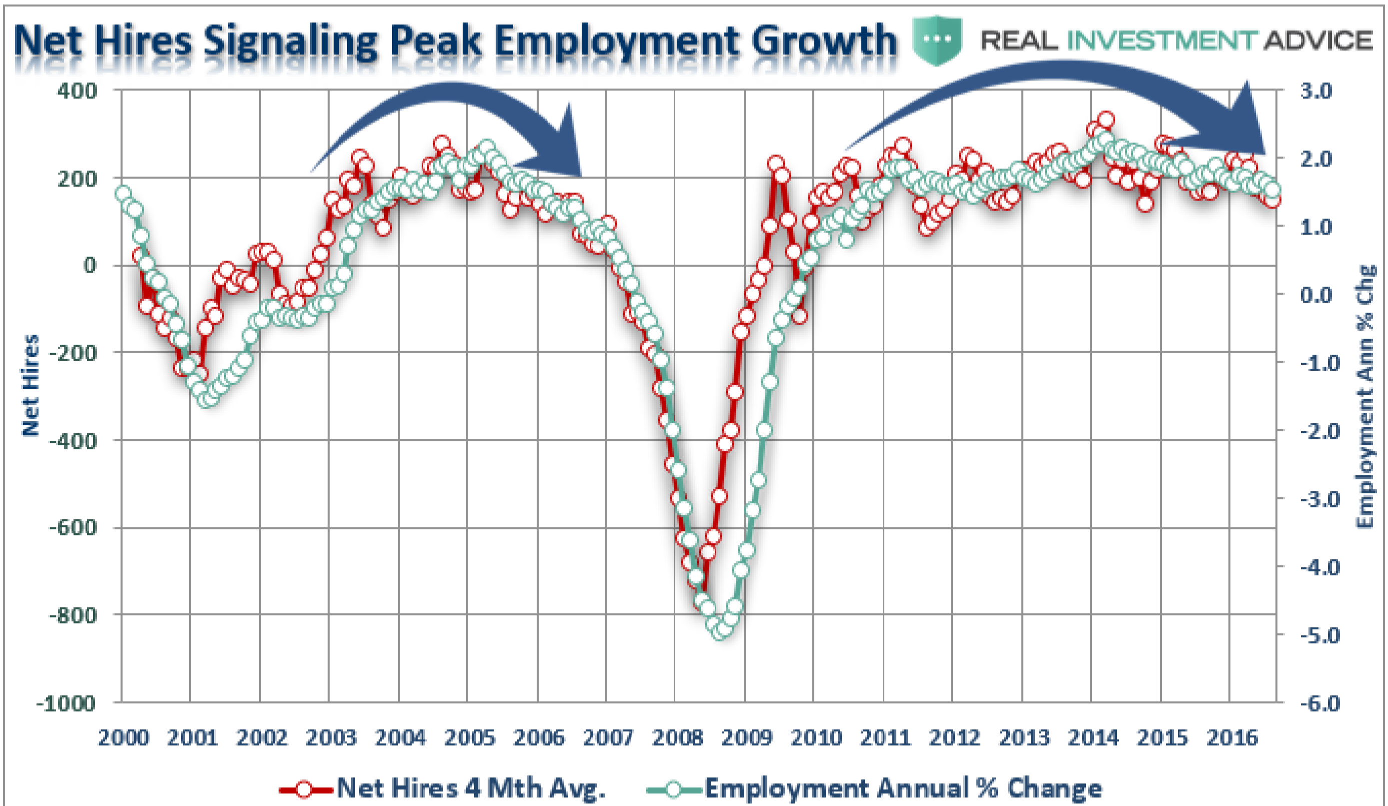
Employment

growth has essentially done little more than to absorb population growth over the last several years but has begun to deteriorate over the last few years. With net hires *(hires less layoffs and quits)*• declining the ratio of job openings to hires is likely to rise further.



While the surge in *"job openings"* has remained a conundrum for economists, the answer may not be so difficult as employers continue to report the problems with filling jobs as:

1. *unfit to do the job (too fat/unhealthy/old),*
2. *lack of requisite skills (education/training), and;•*
3. *unwilling to accept the job for the rate of pay.*

This was noted in the recent FOMC minutes:

> "***Contacts in several Districts reported difficulties finding qualified workers,*** *and, in some cases, firms were coping with labor shortages by increasing salaries and benefits in order to attract or retain workers.* ***Other business contacts facing labor shortages were responding by increasing training for less-qualified workers or by investing in automation."***

A recent job posting revealed what we already suspected about the *"new economy."*

> Compensation, $15 dollars per hour. PhD strongly preferred. pic.twitter.com/IcopoedPto
>
> ? Jorge Guzman (@GuzmanJorge_) July 3, 2018

While these are anecdotal examples, it potentially explains why labor force participation remains stuck at multi-decade lows as government benefits provide more income than working. Currently, social welfare makes up a record high of 22% of disposable incomes. The reality is that if•the jobless rate was actually near 4%, job openings would be filled, wages would be surging for the bottom 80% of workers along with interest rates and economic growth. Instead, we see more evidence of economic stagflation than anything else. Despite many exuberant hopes of an *"economic resurgence,"* the vast majority of the data continues to point to a very late stage economic cycle.•While I am not suggesting the U.S. actually IS Japan, I am suggesting we can look to Japan as *"road map"*•as to the consequences of **high•debt levels, aging demographics, deflationary pressures and opting for "short-term fixes" rather than fiscal responsibility.** Unfortunately, the Administration has chosen to follow the path of Japan which is unlikely to have a different outcome.•**There is no evidence that monetary interventions and government spending create organic, and sustainable, economic growth.**•Simply pulling forward future consumption through monetary policy continues to leave an ever-growing void in the future that must be filled.**Eventually, the void will be too great to fill.** There is certainly time to change our destination, but it will require a massive shift in perspective and desire to do so. **With a rising number of Millennials starting to embrace socialism over capitalism, the future of the U.S. may be more like Japan than we readily wish to admit.**•Just something to think about as you catch up on your weekend reading list.

Economy & Fed

- **Invert Or Not Invert - That Is The Fed's Question** by Caroline Baum via MarketWatch
- **The Millennial Socialist Are Coming** by Michelle Goldberg via NYT
- **One More Fed Hike To Inversion** by Tyler Durden via Zerohedge
- **How To Sustain The Boom** by Matthew Shay via Real Clear Markets
- **Business Want The Trade War To Stop** by Rex Nutting via MarketWatch
- **The Dollar Problem For Emerging Economies** by Simon Constable via Forbes
- **Japan Sheds Treasuries** by Mike Shedlock via Mishtalk
- **The Myth Of Corporate America's Short-Term Thinking** by Steven Rattner via NYT
- **Not All Trade Is Equal** by Kaya Forest/Sierra Rayne via American Thinker

- **What Would A Trade War Cost The U.S.** by Tom Franck via CNBC
- **Economist Won't Predict The Next Crash** by Thorstein Polleit via Mises Institute
- **The Real Cost Of A Trade War** by Mukhisa Kituyi via Project Syndicate
- **Trade Retaliation Is Unjust** by Donald Boudreaux via American Institute For Economic Research

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Markets

- **CS: Risk Appetite Index Is Near Panic** by Tyler Durden via ZeroHedge
- **Hard To Be Bearish On Stocks** by Shawn Langlois via MarketWatch
- **Stocks Still Have Some Mojo Left** by Mark Hulbert via MarketWatch
- **What's The Deal With Brokers** by Dana Lyons via The Lyons Share
- **Implicit Dangers Of Passive Investing** by Derek Bergen via Value Expectations
- **Is The Flat Yield Curve A Concern?** by Deutsche Bank Research
- **Stock Buybacks Only Thing Floating The Market** by Jeff Cox via CNBC
- **Will Investors Know If There Is A Trade War?** by Mark Decambre via MarketWatch
- **Why The Next 5-Years Could Be Very Rough** by Rob Isbitts via Forbes
- **Dow Jones Needs A Reshuffle** by Jonathon Trugman via New York Post
- **The Gathering Storm** by Charles Smith via OfTwoMinds Blog

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Most Read On RIA

- **The Myth Of Buy And Hold Investing - Part V** by L. Roberts, M. Lebowitz & J. Coumarianos
- **Household Wealth Is A Bubble** by Jesse Colombo
- **An Unhealthy & Potentially Toxic Market** by Doug Kass
- **2nd Half Starts With A Fumble** by Lance Roberts
- **Dump Your Stocks, Get A Plan Instead** by John Coumarianos
- **RIA Chartbook Q2-2018** by Lance Roberts

Research / Interesting Reads

- **BOJ Pulls Away The Punch Bowl** by Wolf Richter via Wolf Street
- **Corporations Taking Wages To Increase Profits** by Patrick Hill via The Progressive Ensign
- **Big Tech Is A Big Problem** by Ken Rogoff via Project Syndicate
- **Economic Boom? Is All Well?** by Jeffry Bartash via MarketWatch
- **Media's Coverage Of Retirement Savings Is Terrible** by Andrew Biggs via Forbes
- **Buy High/Sell Low With Index Funds** by Rob Arnott via Research Affiliates
- **Hurry Up And Get A Divorce** by Jim Tankersley via NYT
- **Will Public Unions Survive The Janus Decision** by Michael Busler via Real Clear Markets
- **4-Habits Of The Millionaires Next Door** by Molly Triffin via Acorn
- **How Much Is Enough For Retirement** by Carrie Schwab-Pomerantz via Schwab

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> ***?If you have large cap, mid cap, and small cap, and the market declines, you are going to have less cap" -*** *Martin Truax*

Questions, comments, suggestions ? please email me.