

Japan Should Scrap U.S. Debt, Dollar May Plummet, Mikuni Says

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The article below is a wake-up call to the harsh reality of the financial fiasco that has visited the US. For further details see Matthias Chang's articles on www.FutureFastForward.com and www.GlobalResearch.ca

Japan should write-off its holdings of Treasuries because the U.S. government will struggle to finance increasing debt levels needed to dig the economy out of recession, said Akio Mikuni, president of credit ratings agency Mikuni & Co. (Emphasis added)

The dollar may lose as much as 40 percent of its value to 50 yen or 60 yen from the current spot rate of 90.40 today in Tokyo unless Japan takes "drastic measures" to help bail out the U.S. economy, Mikuni said. Treasury yields, which are near record lows, may fall further without debt relief, making it difficult for the U.S. to borrow elsewhere, Mikuni said. (Emphasis added)

"It's difficult for the U.S. to borrow its way out of this problem," Mikuni, 69, said in an interview with Bloomberg Television broadcast today. "Japan can help by extending debt cancellations." (Emphasis added)

The U.S. budget deficit may swell to at least \$1 trillion this fiscal year as policy makers flood the country with \$8.5 trillion through 23 different programs to combat the worst recession since the Great Depression. Japan is the world's second-biggest foreign holder of Treasuries after China.

The U.S. government needs to spend on infrastructure to maintain job creation as it will take a long time for banks to recover from \$1 trillion in credit-market losses worldwide, Mikuni said. The U.S. also needs to launch public works projects as the Federal Reserve's interest rate cut to a range of zero to 0.25 percent on Dec. 16. won't stimulate consumer spending because households are paying down debt, he said.

U.S. President-elect Barack Obama wants to create 3 million jobs over the next two years, more than the 2.5 million jobs originally planned, an aide said on Dec. 20. Obama takes office on Jan. 20.

Marshall Plan

Japan should also invest in U.S. roads and bridges to support personal spending and secure demand for its goods as a global recession crimps trade, Mikuni said.

Japan's exports fell 26.7 percent in November from a year earlier, the Finance Ministry said on Dec. 22. That was the biggest decline on record as shipments of cars and electronics collapsed.

Combining debt waivers with infrastructure spending would be similar to the Marshall Plan that helped Europe rebuild after the destruction of World War II, Mikuni said.

"U.S. households simply won't have the same access to credit that they've enjoyed in the past," he said. "Their demand for all products, including imports, will suffer unless something is done."

The plan was named after George Marshall, the U.S. secretary of state at the time, and provided more than \$13 billion in grants and loans to European countries to support their import of U.S. goods and the rebuilding of their industries

Currency Reserves

The Japanese government could use a new Marshall Plan as a chance to shrink its \$976.9 billion in foreign-exchange reserves, the world's second-largest after China's, and help reduce global economic imbalances, Mikuni said.

The amount of foreign assets held by the Japanese government and the private sector total around \$7 trillion, Mikuni said.

Japan will also have to accept that a stronger yen is good for the country in order to reduce excessive trade surpluses and deficits, he said. The yen has appreciated 23 percent versus the dollar this year, the most since 1987, as the credit crisis prompted investors to flee riskier assets and repay loans in the Japanese currency.

"Japan's economic model has been dependent on external demand since the Meiji Period" that began in 1868, Mikuni said. "The model where the U.S. relies on overseas borrowing to fuel its property market is over. A strong yen will spur Japanese domestic spending and reduce import prices, thereby increasing purchasing power."

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