

## The West and Japan's Response to Cheap Money

**In every culture, low interest rates impact the fabric of society and mindsets in distinct ways. Each country thus develops its unique manifestation of nihilism.**

By Tomas Casas i Klett, March 10, 2020



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Increasingly low and even negative interest rates stand indicted in the court of public opinion. **Their causal connection to asset bubbles**, unaffordable housing, inequality and the next economic crisis becomes harder to dispute.

Still overlooked is a dimension no less critical, one especially salient in an international comparative context. In a diabolic cycle, **low interest rates are both the cause and consequence** of the loss of appetite for economic risk-taking. This is an economic and a human tragedy.

The pressures of cheap money on the Eurozone and on Japan might be similar, but each society's response to the strain is distinct.

It is well-known that negative interest rates allow so-called zombie companies to live on, even though they are no longer economically viable enterprises. In Japan's case, such zombie firms have a counterpart — living dead individuals.

Japan has a pool of about 600,000 adult hikikomori, people who literally live self-secluded in their own bedrooms (the official definition requires six months of isolation). The culprit in our analysis is called ZIRP, the "zero interest-rate policy" introduced by the Bank of Japan at the end of the 1990s.

ZIRP has now ruled over Japan's economy for two decades. It lays behind the country's paralysis, stagnation, ballooning debt levels, low wage growth and lack of innovation.

Equality shocking is the impact of cheap money on general attitudes and culture in Japan. Gone is the Samurai spirit of Meiji Restoration entrepreneurs, or the hard-hitting leadership of the raising kaisha firms of the 1950's to the 1980's that once drove the global automotive, electronics or semiconductor sectors.

Instead, the capitulation mindset of the hikikomori recluses is **part of Japan and its nihilist manifestations**.

**Is vanishing Eros linked to Japan's low/negative interest rates?**

Low interest rates extinguish the appetite for risk in society — any type of risk. And that applies to unsuspected domains.

The lack of will to start a family and Japan's low fertility rates, were explained to us by a businesswoman in Tokyo as she vented her displeasure. Her take about the Japanese male? He has morphed from carnivore (肉食系男子 nikushoku-kei danshi) to a grass-eating man (草食系男子 soshoku-kei danshi).

Basically, he has little or no interest in flirting or in other risky pursuits, whether personal or business.

And yet as foreign as the hikikomori or the soshoku-kei danshi might appear, in the West we might end up wishing for the ability to adjust our lives to the inverted low interest rate universe in as civil a manner as the Japanese have.

### Back from nihilism?

The link between low interest rates and the loss for the taste of life might seem a bit of a stretch. But exploring this conjecture might help to understand what is happening in the West with the young, a population segment undergoing rapid cultural change.

Portrayed as **"Generation Wuss,"** Millennials are depicted as "overly sensitive." Moreover, many seem unwilling to strive, often disinterested in hard work or in saving, narcissistic even if shunning consumption.

It is as if Millennials knew that they have been set up for stagnating lives. The ultra-low interest rates and the subsequent asset inflation put home ownership out of their reach. This generation will also experience inequality levels not seen since pre-World War II times.

Moreover, the decline in risk taking sees, on the net, see scant new value creation in the economy. That, in turn, triggers a litany of other issues, **such as secular stagnation**, or low wage growth.

With that the business models of elites have to shift from enlarging the pie to enlarging their own piece of the pie, i.e., **to rigged capitalism**.

Millennials might not (yet) blame subzero rates for their travails whose manifestations can be shocking. Like the behavior pointedly described with its causes in a headline and its **subheading**:

“ *Why millennials are making memes about wanting to die: As a downwardly-mobile generation, Dadaist jokes about death by Tide Pod is a form of catharsis for us millennials.* ”

In the wake of decline, death instinct follows.

In the near future, however, self-absorption and apathy (also seen in not voting) might give way to more aggressive varieties of nihilism. Now the destructive focus is inward — the aforementioned "Tide Pod Challenge" consisted of swallowing laundry detergent pods and saw at least eight fatalities in the United States. At some point, however, the targets of Thanatos might shift outward.

### What is the endgame for the West?

There is an older, asset-rich generation which are de facto low-interest rate rentiers. Moreover, capital unemployed and parked, often in appreciating secondary market assets like stocks or real estate, further stifles prospects of real economic growth and innovation.

The young might not see the point of conserving a system that shortchanges them dousing risk-taking and new value creation on the back of rent-seeking.

What reactions can we expect from the young aware of value being transferred from them to the old (via high rental fees for housing), or from their futures to the present (via low productivity growth or even environmental destruction)?

The more painful distributional effects of cheap money (or environmental degradation for that matter as both yield many losers and few concentrated winners), will manifest themselves in full in the coming years.

With inequality, prevailing narratives, including liberal democracy, might become ripe targets of new, much darker political aspirations. The sense of dispossession and social injustice has always been hard to channel productively.

### Japan is no example for the West

While it will be both fascinating and terrifying to observe how Western culture and Weltanschauung develop under the low interest rate regime, Japan offers no guide.

What is truly amazing about Japan is that, despite nearly no risk-taking and innovation and lots of hikikomori, there is stoic assent. The young accept that decline is the new normal, and the country's social fabric, including its work ethic, perseveres. There are no serious challenges or signs of outward violence towards the system.

In fact, Japan is the paradigmatic example of how to wane with dignity and grace. This unique feat is attributable to a remarkable culture and sensitivity, quite unlike ours in Europe and America.

In the West, it might be worth discussing the endgame of the low interest rate netherworld and the attendant social decline and nihilism. As one contemplates the trap, the three main possibilities are:

1. Gentle and dignified paralysis (à la Japan)
2. Much less gentle system collapse (**à la Soviet Union as we saw**)
3. A commonsense approach, aiming at a very tortuous path back from the netherworld to natural interest rates and healthy risk-taking (no recent example exist, even as Sweden's Riksbank's recent rate hike merits attention).

### Exile risk at your own peri

Despite low and negative rates, pockets of risk-taking and innovation fortunately exist in all Western economies.

Entrepreneurs, family businesses, professionals or private equity investors successfully defy the Anschluss to the negative rate universe where by mathematical certainty the present is better than the future.

But these islands of resistance with positive risk-adjusted rates and returns, and with futures better than the present, are becoming exceptional. For the most part, they are unlikely to last indefinitely.

If the advance of the sub-zero rate terror is not checked, society will suffer an ever tighter paralyzing embrace. As central banks lengthen the stay of low interest rates, the bites of the living-dead will increasingly be felt on those still alive.

To top this panorama, the young in the West might not be as contemplative or virtuous as their Japanese counterparts.

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