



Financial Crisis Report

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Advancing in a Time of Crisis

Words of Wisdom: “The reasonable man adapts himself to the world; the unreasonable persists in trying to adapt the world to himself. Therefore, all progress depends on the unreasonable man.” George Bernard Shaw

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Except for the Great Depression, we are experiencing the most economically unstable period in the history of the modern world. This period will be marked with extreme fluctuations in the stock, commodity and currency markets accompanied by severe and sometimes violent social disruptions. As is typical of such times, many fortunes will be made and lost during this period. After talking with many business owners, executives, professionals and government officials from around the world, the writer believes that for the financially astute investor, this is a time of unprecedented opportunity given the global trade unbalances and distortions in the commodity and currency markets. The *Financial Crisis Report* is a free compilation of the opinions of David Miyoshi as well as of those advisors he himself subscribes to (with appropriate credits given) on how to benefit during this time of crisis. The writer receives no compensation of any kind from any advisors whose articles or ideas may appear in this report. The reader is welcomed to check on all sources of information mentioned herein. Because the opinions and observations of this writer and other advisors are provided herein without charge, the reader is asked to make his/her own judgment on the contents.

How Trump will become President

The common wisdom is that Hillary Clinton will clobber Donald Trump in the general election and become the first president of the United States without a Y chromosome. Perhaps people are less critical and more forgiving of liars than they are of hustlers. Well, mathematically, Clinton does have the number of voters to pull it off. So, in one sense this article is just a fanciful tale of an improbable event. But for the sake of exercising my imagination just for a bit, here is what and how I think that improbable event could happen.

On March 3, 2016 Mitt Romney gave a scathing rebuke about the fitness of Donald Trump becoming the president of the United States. The words “Phony” and “Fraud” were liberally used by Romney in his diatribe to disparage and expose Trump. And for the most part, Romney made a lot of sense. But, he received a lot of criti-

cism for seemingly trying to get votes to Cruz and Rubio perhaps to set up a contested convention in which he (Romney) or Paul Ryan would be available to be selected as the Republican nominee for the presidency.

Anyway, I am a moderate Republican and am inclined (but not obligated) to vote for the Republican nominee for president. But Trump is not my first choice to be our nominee. However, in view of Clinton’s apparent moral shortcomings and issues of trustworthiness, for the sake of the United States, I believe any of the Republican candidates would make a better president than her. Clinton is a mere protégée of Obama and I don’t think our country can economically, politically and socially endure another 4 years of his administration.

So here is my Tongue in Cheek “justification” and “spin” on how I believe The Donald will beat Hillary for the presidency. I will not bet the farm on it but am willing to bet a chicken and a bull from the



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farm (to that my associate who is always chiding me with scatological jokes says my spin is just a huge chickensh*t notion and amounts to a bunch of bullsh*t).

How Trump will beat Clinton

Trump will beat Hillary to win the U.S. Presidential Election by attacking her from the left.

Democrats who think Clinton would easily beat Trump are making the dangerous assumption that the Donald Trump that Clinton would face in a general election is the same Donald Trump who is currently leading the GOP primary competition - however I think that is unlikely to be the case.

In particular:

Trump is a master at playing to his audience, and we should expect him to re-spin himself for a presidential campaign - Right now we are seeing what Trump does when he wants to appeal to GOP primary voters. We should not assume that he will do the same things when he wants to win a general election.

Trump's populist strongman branding makes it easy for him to change his policy focus to appeal to a wider audience - Trump's argument for why he should be president is that he a strong leader who can get things done, and that he will stick up for "normal" Americans against "elites" who are keeping them down. This appeal is largely orthogonal to particular policies, so I'd expect him to get relatively little punishment if his policies "evolve".

Trump doesn't fit into the normal liberal/conservative framing - People in the US are used to a left/right division based on identity-politics issues like sex/race/guns/tax, but

Trump doesn't fit into that. Instead he is a populist with a message of "power to the (right kind of) people". When I say that Trump will attack Clinton from the left, I don't mean he will go left on identity politics issues, but that he will say that he supports the 99% while Clinton supports the 1%.

Trump's appeal isn't limited to GOP

hard-liners - Conventional wisdom used to be that there are no swing voters and that the way you get turnout is by energizing your party's traditional base. In the case of the GOP, it was assumed that this meant being a hard-line social conservative. However Trump has found that he can instead energize the base by being a populist who appeals to everyday Americans who feel unfairly treated. Bernie Sanders is having success making a similar appeal to democratic voters, suggesting that there is fertile ground for Trump to pick up votes from democrats if he re-brands himself a little.

Hillary Clinton is the perfect candidate for Trump to run against - If Trump's core value proposition is that he can fight back against "the corrupt aristocracy" then who better for him to run against than the wife of a former president who gives the impression of being beholden to special interests.

Trump has been pranking the GOP race and we should expect him to prank the presidential race - The democrats are gearing up for a conventional campaign, but that isn't what Trump is going to give them. Expect him to hit them sideways and take policy angles that GOP candidates aren't supposed to take.

If Hillary Clinton is the democratic candidate





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(which looks most likely at the time of writing) then I can imagine Trump potentially doing a lot of things to knock her sideways:

Present Hillary Clinton as a puppet of special interests - He'll talk about how Hilary believes she is entitled to inherit the presidency because she is the wife of a former president. He'll push on her ties to bankers and private prisons. He'll try to frame her an insincere politician who you can't trust to act in the interests of normal Americans.

Re-spin his position on immigration to sound more Sanders-like - While his recent spin has been designed to appeal to the right, his views have some overlap with those of Bernie Sanders on the left, who said "what right-wing people in this country would love is an open-border policy. Bring in all kinds of people, work for \$2 or \$3 an hour, that would be great for them."

Aggressively court Sanders supporters - The media presents Trump as being far right, but his appeal overlaps a lot with that of Bernie Sanders, since both of them are populists. Trump would need to pivot his brand to appeal to them, but he is a master of playing to his audience. If he really wanted to punk the presidential election then it's not inconceivable (though unlikely) that he might even pick Bernie Sanders as his running mate.

Emphasize policy positions with broad appeal - As a candidate who isn't dependent on super-PACs, I can imagine him taking a strong position that he is the person to take money out of politics. As someone who isn't tied to the elites of either party, I can imagine him presenting himself as the candidate to end partisanship.

Tone down his more "conspiracy-theory" like statements - E.g. Muslims cheering for 9/11. These were great for riling up the GOP base and getting media attention, but they probably play more negative to a broader audience. Expect him to make an effort to seem more stable - while still a populist. He'll make so much noise that people will forget things he said further into the past.

Get endorsements from surprising people - Trade union leaders. Black activists. Democratic media outlets.

In current polls, Trump is only slightly behind Clinton. He only has to re-spin himself a little bit to get ahead of her.

Where things get really interesting is if Bernie Sanders wins the Democratic Primary. If that happens then there is a good chance Michael Bloomberg will enter the race, and potentially pick up support from the establishment and super-PACs of both major parties.

We are potentially witnessing a major political realignment.

So we will all have to get used to The Donald being president and his declarations "It's incredible," "I love you all," "were going to get tired of winning," "I have never heard a bigger liar," "he's a choke artist," "micro so and so," "lying so and so" and "We're going to make America great again." On that last pledge, I am counting on it. But if he achieves it, I can also envision an emboldened Trump saying to the Russian president "Putin, my hands may be puny but your whole body is, you phony, petty, pusillanimous plutocratic piss poor pretext for a president." That's when we all assume the fetal positions under our desks because the IC-BM's will begin flying.

No doubt, this is a watershed election for our coun-



The Happiest Places in the World

try. For good or bad, it will change our country for a long, long time to come.

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The Happiest Places in the World

No, it's not Disneyland. But *Agora Financial* did report that the United Nations published its annual "World Happiness Report" for 2016. We'll pause a moment to let it sink in that the U.N. actually devotes manpower and materiel to compiling a "World Happiness Report."

The "researchers" take quantifiable measures like GDP per capita and life expectancy... plus less quantifiable things like "generosity" and "perceptions of corruption"... and put them all in a blender and hit "purée."

Herewith, the 10 happiest nations... plus a few major developed nations for perspective...



The U.S. at No. 13? Sure, it's not as good as those giddy Nordic countries. But it's nothing to sneeze at, either. In

2013 the U.S. was 17th, so things are looking up a bit. I think part of the reason why the U.S. keeps missing out of the top 10 is because we have some people with a lot of money but we have more people with very little of it. Maybe if we took a bunch of money from the people with a lot of it and gave it to the people with very little, the happiness rankings would go up. Bernie Sanders would probably give that suggestion a high five. Also, maybe if they didn't interview the ticked off citizens supporting Trump the rankings could bump up.

Besides the U.S. my other favorite country Japan is at a lowly #53 ... what a downer. Guess a quarter-century of economic stagnation will drag anyone into a funk.

Meanwhile, investors are showing "deepening frustration" with Japan's negative interest rates and "faltering" economic policy, says the *Financial Times*.

It wasn't supposed to work out this way. But less than four months after the Bank of Japan ventured into below-zero interest rates, Japan "is discovering that negative interest rates are not the magic solution for spurring inflation and a weaker currency but are instead bringing their own raft of unintended consequences."

You mean like (as was recently reported) hardware stores running out of safes because Japanese want somewhere other than a bank to stash their cash?

The yield on a 10-year Japanese government bond fell to a record low — minus 0.135%. That happened after almost no one showed up for a recent auction of Japan Government Bonds (JGBs).

"Anecdotally, there is evidence that a lot of overseas investors are saying it's time to take a chance on offshore markets like the U.S. that have a higher yield," portfolio manager Jay Mueller from Wells Capital tells the salmon-colored rag FT.





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Sure enough, U.S. Treasury prices are up and yields down. The FT story surely affirms financial consultant Jim Rickards’ suspicions that something big and bad is about to go down in Japan — as he puts it, a “financial A-bomb” whose fallout will affect all of us.

We haven’t had a chance to get Jim’s latest thoughts on this matter... but we know his concerns center on those very JGBs no one seems to want. Jim will be going to Tokyo to personally investigate the reasons for this potential crisis brewing there.

Jim’s contacts in Japan tell him a rogue group of individuals is about to detonate this financial A-bomb — with consequences that will cascade around the globe.

“By the time everyday investors and retirees like you will know what happened,” says Jim, “stocks could gap down in a 10%-plus flash crash in a matter of seconds... the selling panic could lead to the shutdown of stock markets, like after 9/11... and major financial institutions will go bankrupt, taking savers’ money with them.”

Well, we all know intuitively that something bad will happen to the economies of the world, we just don’t know when. For those who are cautious, now is a time to protect your assets. For those who are bolder, it is a time to begin maximizing your assets.

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The Roots of Trump’s Strength

The following article was published on March 7, 2016 by George Friedman, Editor of *This Week in Geopolitics*. Mr. Friedman is a perceptive writer on the dynamics of geopolitical trends. These perceptive talents in revealing why Trump is doing well in the polls are evident in this article.

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Donald Trump appears likely to be the Republican candidate for president. This does not mean that he will become president, but it does mean that he might. It also means that the basic dynamic of the American political system has shifted, suggesting the behavior of the United States might change. And that makes Trump a matter of geopolitical interest.

These geopolitical consequences cannot be considered until we have looked at how and why Trump differs from other candidates and why he has emerged as a political power.

Let’s begin with a criticism that has generally been made of him. His supporters tend to be less educated, less well-off, and white. This has become a central, disaffected class in the United States, and while focus has been on other groups, Trump has spoken to this one. He has addressed their economic and cultural interests, and no candidate has done that in a long time.

This strategy is what has made him effective. Yet it also poses a challenge, as this class by itself isn’t large enough to give him the presidency. And it generates an almost unanswerable question: Did Trump plan this strategy or did it just happen? But let’s begin with why poorer, less educated white voters have flocked to him.

The Invisible Man—The White Lower-Middle Class

In the United States, the median household income



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is about \$51,000. In California, a state with high taxes, the take-home pay would be about \$39,000 a year. That translates into about \$3,250 a month in take-home pay for living expenses. If we assume that a home in an inexpensive suburb, a car, and some limited annual vacation is what we mean by middle class life, it is hard to see how the middle class affords that life today.

The fourth quintile, the heart of lower-middle class, earns about \$31,000 a year before taxes per household. I grew up in a lower-middle class household (my father was a printer, my mother a homemaker, and there were two children). We owned a house and a car and took a vacation.

Today, people in the lower-middle class are bringing home, at best, \$2,000 a month, and they will not own a house but instead pay \$1,200 a month to rent an apartment, with the rest going to food and other basics. The lower-middle class can no longer afford what used to be a lower-middle class life.

The Democrats have made a huge case about inequality, assuming that the problem is that the rich own too much. American political culture has rarely been triggered by inequality, but by the inability to acquire the basics of American life. The problem with the Republicans is that they have not noticed that the defining issue of this generation is the collapse in the standard of living of the middle and lower-middle classes. This is part of what brought Trump to where he is today, but only part.

The deeper problem was the perception of the

white segment of the lower-middle class that their problems were invisible. They heard talk about African-Americans or Hispanics and the need to integrate them into society. However, from the white lower-middle class perspective, there appeared to be little interest in the challenges facing their demographic. Indeed, there was a perception that the upper strata and the media not only didn't care about them, but had contempt for their beliefs.

The white lower-middle class is divided into two parts. One part has already been shattered by economic pressures, family fragmentation, drugs, and other forces. Another part is under equal economic pressure but has not yet fragmented. It retains values such as religiosity, traditional sexual mores, intense work ethic, and so on.

This is the class that has been deemed pathological by the media and the upper classes. Its opposition to homosexuality, gay marriage, abortion, promiscuity, and the rest (which was the social norm a generation ago) is now treated as a problem that needs to be overcome, rather than the core of a decent society. The speed of the shift in the values of dominant classes has left this class in a position where those values taught at home and at church are now regarded by the broader society as despicable. Repercussions are bound to happen.

The simultaneous economic disaster and delegitimation of their values marginalized this class.

When Mitt Romney referred to the 47% who were





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parasites in our society, he was referring to these people. When Barack Obama was elected, this group felt that the focus had shifted to the black community and saw itself as invisible (and to the extent seen, contemptible). Economic, social, and cultural evolutions had bypassed them.

Their perception of the political system has become intensely cynical. They see the political elite, bankers, lawyers, and lobbyists as a near criminal and entirely incompetent class. We speak of unemployment after the 2008 recession in terms of numbers. These are the people who were unemployed. They view this elite as claiming rights they haven't earned. The lower-middle class can tolerate earned wealth, and even respect it, but cannot accept what they see as manipulated wealth and power.

They also see politicians as being dishonest in other ways: saying whatever they need to say in order to be elected. This is not a new view of politics. However, in this case, what the politicians have said is neither in the language of the white lower-middle class, nor does it address any of their issues. It is not only indifference to the economic problems of the white middle and lower-middle class, but obeisance to a political correctness that delegitimized their values. The politicians are implicitly and explicitly rejecting lower-middle class values.

The Champion of the White Lower-Middle Class

Enter Trump. He is rich, but he is perceived, rightly

or wrongly, to have earned his wealth—not stolen it through financial trickery. That was one of Trump's first assertions. The fact that he is a billionaire has helped, not hurt him. The Democratic fantasy of class jealousy doesn't work where Trump is concerned. The lower-middle class admires his wealth.

Trump spoke against Mexican immigrants (and implicitly a broader grouping of Hispanics). He is not seen as having his statements vetted by marketing people. And he says things the way his supporters would say things. Trump made it clear that he heard their cultural concerns. Even his debating style—pugnacious, insulting, unapologetic and frequently preposterously wrong—is not fundamentally different from the lower-middle class style of arguing.

It is the very lack of polish that endears him to his followers (and makes him seem like a man from outer space to the upper-middle class). His occasional cursing and threats are part of the entire package. Trump maneuvered himself into the position of a man who, though he may be rich, thinks and feels like the lower-middle class. More important, he shows that they are not invisible to him—not because he speaks to them, but because he speaks like them.

The fact that Trump had never run for office is also a powerful factor in his favor. To this group, the political class is the problem, not the solution. The Republican establishment did not grasp that a career politician groomed to run for president has become



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anathema to this class.

That Trump was successful as a builder also helped him. The claim that he built things is essential to a class who sees construction as real business... and hedge funds as legalized fraud. The bottom half of society is hurting, and Trump is not seen as one of those who helped bring the pain, as Romney of Bain Capital was seen.

And Trump is perceived as a tough guy, who is willing to lie, insult, or threaten to get his way. From the lower-middle class point of view, nothing else will get them the solutions they need. The very idea that he might get the Mexicans to pay for a wall or tell the Chinese a thing or two might not be practical. But the thought that he would deal this way with the two nations they see as responsible for their misery is overwhelmingly seductive.

Finally, and in some ways most important, he says the things they all think but are no longer permitted to say. When he accused Fox News anchorwoman Megyn Kelly, implicitly, of being offensive because she was having her period, observers thought the world would end. For the white lower-middle class, this was a common assertion.

When Trump claimed that John McCain was not a hero just because he had been taken prisoner, he was speaking to the class who has served in the military going back to Vietnam... and never been called a hero for it. Observers thought Trump had destroyed himself. To many of these voters, McCain had carried his burden, but many knew

men who had chosen to die for their buddies. Nothing taken away from McCain, they'd say, but let me tell you about a real hero. For the lower-middle class, McCain had done his duty and endured great hardship... but their definition of a hero was more demanding. They were not appalled by what Trump had said.

This is Trump's strength. It is also his weakness.

Can Trump Win?

The Republican Party is complex. It is more than a party of the wealthy. It is also the party of lower-middle class whites who reject the current cultural tendencies that have marginalized them. Trump got the marginalized white lower-middle and middle class out over cultural issues. But it is difficult to see how this translates into the presidency. This class is not large enough to give him a victory, and his running will energize his opponents to go to the polls.

The culture wars have been won in the Democratic Party, so there are few voters to win over on that basis. Any Democratic candidate will counter Trump on the economic issue. And those in the Republican upper-middle class are no friends of the Republican lower-middle class. It is not clear how he bridges the gap.

I don't think Trump can win the presidency. But he has revealed a serious structural weakness in the American polity. As Americans who earn below the median income are increasingly unable to live the life they could have expected a generation ago,





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they will join in with resentment against the upper classes. That resentment will be built around cultural issues, as well as economic ones.

The issue is not the gap between rich and poor, but the fact that the lower-middle class is becoming part of the poor, and the middle class is moving that way as well. As in Europe, the inability of the political and financial elite to see that they are presiding over a social and political volcano will produce more and more exotic alternatives.

When those people who have skills and are prepared to work can't get a job that will allow their families to live reasonably well, this is a problem. When statistics show that vast numbers of people are entering this condition, this is a crisis. When there is a crisis, these people will turn to politicians who speak to them and give them hope. What else should they do?

Whether Donald Trump planned this brilliantly or was simply extraordinarily lucky doesn't matter. He has found the third rail in American society. The lower-middle class doesn't make enough to live a decent American life, and the middle class is only a little better off. Whether supporting or opposing Trump, it is essential to understand the foundations of his power and its limits. Trump makes no sense until his appeal to the lower-income white demographic is understood.

George Friedman

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While it remains to be seen if Americans are ready for a Trump presidency, *Barron's* asks if Asia is ready for Trump? Undoubtedly with his isolationist rhetoric, Asia is one of the regions to be the real loser should Trump become president.

"President Trump would be a typhoon for U.S. relations in Asia," Jeff Kingston, head of Asian studies at the Tokyo campus of Temple University told *Barron's*.

Asia is near and dear to me because much of my work is centered there and so I am a bit sensitive to the effects U.S. foreign policy has on the area.

While many pundits have said Trump doesn't really believe everything he says on the stump, *Barron's* said if we take him at his word, this is what Asia can expect from a President Trump's foreign policy:

Trump would tear up or demand a renegotiation of the Trans-Pacific Partnership (TPP), which has been a big win for Japan over China.

With the Bank of Japan's move to push interest rates into negative territory, Japan continues to drive the yen down vs. the dollar. In addition, many expect the Chinese currency to soon be devalued again. Either or both could spark a currency war with a Treasury department under Trump. This could include a 45% tariff on Chinese exports, raising import duties on Japanese cars or devaluing the dollar.

As the Republican standard bearer, Trump would have to deny climate change exists. This could have lasting implications for Asia, which is becoming one of the most polluted regions on the planet. A Trump presidency could be "the green light for a region already choking on growth to increase its carbon footprint along with America."

While Trump's notorious proposal to ban Muslim immigrants is sadly increasing his popularity around the US, it could have the opposite effect in Asia, which has four of the five nations with the largest Muslim populations. Even



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though it's unworkable and unconstitutional, it could force Indonesia and Malaysia to move away from Washington's policies.

Finally, U.S.-Asia military alliances could be thrown into disarray as Trump seeks to have Japan and South Korea contribute more to the cost of the U.S. defending them.

Trump "wouldn't simply wreck those alliances, but destabilize Northeast Asia's precarious balance," Van Jackson of the Daniel K. Inouye Asia-Pacific Center for Security Studies in Honolulu wrote in an op-ed for *The Diplomat*.

And where would a Trump White House leave Taiwan? Barron's said that's anyone's guess.

Try to imagine what would happen if Republican presidential candidate Donald Trump decided U.S. policy toward Asia. U.S. presidential elections almost never hinge on foreign policy, but it's worth pondering how a Trump administration might impact the world's wealthiest and most populous region given his seeming nationalist-mercantilist philosophy of governance and transactional view of foreign policy. What would Asia become if Trump became president? In short: it would be a disaster.

Although he gives us only occasional glimpses via impolitic musings, we know several things about Trump's orientation toward foreign policy, and Asia in particular. He believes in having a large, modern, and capable military. He believes in wielding the threat of force but not so much in the use of it. And he believes allies—especially Japan and South Korea—have a free-ride on U.S. commitments, which he claims has two consequences. One is that Americans are suckers for maintaining a forward military presence when they don't need to; the other is that these allies are "eating our lunch" in trade imbalances and economic growth because they don't spend enough on their own defense.

From these glimpses we can deduce a few major implications for Asia policy. All of them are disastrous.

First, Trump would likely withdraw the U.S. military from Asia and instead beef up a garrison force on U.S. territory, which would have enormous strategic consequences. Forward military presence does more than just assure allies and deter aggressors. It enables the United States

to respond quickly to a crisis wherever it may be. If U.S. forces had to fly and sail from the continental United States to respond when its interests were threatened, it would show up to everything a day late and a dollar short. One of the central insights from deterrence literature has been that it's much harder to reverse an action once taken than preventing the action in the first place. Yet if the United States is slow to deploy because of sheer distance, then every expansionist or revisionist actor in the international system would be able to present us with a *faits accompli*. This means that if bad guys are conducting preventive strikes, launching guerrilla wars, conquering territory, or controlling sea lanes near them, the United States would either have to simply acquiesce, or challenge them after they've secured themselves and attempt to reverse their achievements at great cost.

Second, by eliminating U.S. forward presence in Asia, a Trump administration military would willingly give up escalation control. Although far from an exact science, escalation control requires being able to engage an adversary in a crisis or conflict without resorting to total annihilation or nuclear war. The total war approach was already tried in the form of President Eisenhower's massive retaliation doctrine in the 1950s, which planted the seeds of a nuclear-armed China and North Korea, catalyzed the nuclear arms race with the Soviet Union, and left the United States ill-equipped to deal with real-world crises and low-intensity conflict, as repeatedly occurred with China in the 1950s. Even worse, if your solution to every military problem—no matter how small—is nuclear annihilation, other countries will eventually stop believing your threats or you'll be forced to make good on that nuclear annihilation promise. Either outcome would be catastrophic.

As a corollary, if U.S. forces are based at home, then every crisis or conflict would represent a 21st century version of the massive retaliation doctrine because no tailored solutions, deterrence forces, or small troop deployments would be possible, because they'd have to first navigate across the Pacific Ocean to be relevant, by which time the outcome of a crisis or conflict may already be decided. A home-based U.S. force could only influence international outcomes by threatening massive retribution, which would immediately escalate any situation to an unacceptable and irresponsible level. As China seeks dominion over the South China Sea—through which \$5 trillion of trade passes each year—a U.S. military absent from the region will have no sway over events. And if China succeeds in establishing *de facto* military domination of the South China Sea, it will be the United States, alongside allies and partners, who will lose freedom of navigation rights and the



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ability to engage in global commerce unencumbered.

Finally, Trump’s stance toward allies like Japan and South Korea would not simply wreck those alliances, but destabilize Northeast Asia’s precarious balance. Without a U.S. alliance, both states are dramatically more likely to develop their own nuclear weapons, which destroys the possibility of preserving a nuclear nonproliferation regime, and consequently would make it impossible to prevent other determined states, like Iran, from going nuclear. And with the United States walking away from its clear commitments to Japan and South Korea, there would be no credible prospect of the United States coming to the aid of Taiwan, where U.S. commitments are more ambiguous. China’s determination to absorb Taiwan—even against the latter’s will—would face dramatically fewer inhibitions if China knew Taiwan would not have U.S. backing.

More than simply abandoning Japan, Trump seems to indicate we would enter a confrontational phase in U.S.-Japan relations. He blames Japan for not spending enough on defense, but Japan’s closest neighbors have long been wary of a militarily “normal” Japan. Without the United States, moreover, a Japan with a large and advanced military may push South Korea—whose diplomatic relations with Japan have long been tense—into alignment with China. And although Trump makes a bogeyman out of U.S. trade imbalances with Japan, he overlooks the fact that U.S. trade relations with Japan benefit the United States; Toyota, for example, manufactures cars for the U.S. market in many low-income areas in the United States, providing tens of thousands of jobs for Americans. Trade imbalances are an abstraction; jobs are real.

Of South Korea, Trump asks, “...how long will we go on defending South Korea from North Korea without payment?” Never mind that South Korea does share the cost of stationing U.S. troops in South Korea, that the South does contribute to U.S. security interests around the world, or that the anti-Americanism in North Korean identity means we’re defending ourselves from North Korea in addition to the South. Because we maintain a military presence in South Korea, deterrence has prevailed. Yet Trump says, “...the young man from North Korea starts acting up...we immediately get our ships going. We get our aircraft. We get nothing for this.” Avoiding large-scale casualties or chemical warfare is not “nothing;” it’s peace, however precarious. Perhaps Trump would prefer to see a second Korean War?

Trump’s slogan is “Make America great again.” But willfully ceding U.S. global leadership isn’t greatness. Abandoning the global liberal order to others isn’t greatness. Allowing large-scale atrocities or the end of a generation of peace in Asia when you have the ability to prevent it isn’t greatness. And neither is reneging on U.S. commitments.

Far from being “great,” Trump’s Asia policy is morally, economically, and strategically unconscionable.

D. Miyoshi

The Coming World of C-3PO

We all remember the robot C-3PO from the movie *Star Wars*. The ways things are going we will have a lot of them running “around” the place (or worse, running the place).

At the recommendation of some colleagues, I saw the movie *Eye in the Sky* about the use of robots (drones) in combat and the moral justifications (and indictments) of their use by, for and against humans. The movie portrays a British officer more accepting of collateral damage to non-combatants than an American pilot who is ordered to fire a missile from a drone into a house occupied by terrorists. This is not so much a comparison of the moral and political values of a Brit verses those of an American as it is a portrayal of the constraints of conscience that are felt the closer one is to the act of pulling the trigger.

When engaging terrorists the rules of engagement of our military can be problematic when political and diplomatic “optics” become imperative. The famous quote by the Greek dramatist Aeschylus is apt here “In war, truth is the first casualty.” In Vietnam we embellished the enemy body counts to encourage our populace. In the Mideast, we diminish the collateral damage counts to placate the natives. In any case, I highly recommend you see *Eye in the Sky* to get a glimpse of the dilemmas our military now faces on a daily basis.

The famous science fiction writer Isaac Asimov predicted that the future will be populated by robots who (or which) will be as commonplace as cars are today. Asimov knew that the robots of his day were principally designed to protect humans and thus to do harm to humans who were threatening those being protected. So he came up with his famous Three Laws of Robotics –





The Coming World of C-3PO

1. A robot may not injure a human being or, through inaction, allow a human being to come to harm.
2. A robot must obey the orders given it by human beings except where such orders would conflict with the First Law.
3. A robot must protect its own existence as long as such protection does not conflict with the First or Second Laws.

Well I hope the companies that will be making robots take heed in these laws because the way our world is now going, robots will be as commonplace as cars. That is because free market capitalism, as we know it, is depending on robots for survival.

Jason Stutman of Wealth Daily wrote that there are a growing number of economists and political think tanks arguing that modern capitalism will very soon outlive its usefulness. These predictions stem from a growing number of long-term job forecasts indicating that within the next half-century, as many as 90% of human jobs will be replaced by robotics and automation.

It's no secret that job-seekers today require higher levels of education to compete in the job market than they did just a few decades ago. You used to be able to get by just fine in the job market with a high school diploma, but some time over the last 20 to 30 years, a college degree has become the bare minimum for just about anyone seeking a respectable, living paycheck.

The sad reality is that today, if you're not in school until you're 25, there's a good chance you're going to end up working as a barista at Starbucks. In today's economy, a college degree is worth a dime a dozen, and given enough time, the same may eventually hold true for many post-graduate degrees.

The reason for increasing education requirements is simple: lower-skilled jobs are being replaced with automation at an accelerating rate. As machines become more dexterous, more efficient, and more intelligent, the market has required us humans to step up our game.

The problem, of course, is that not everyone can meet these rising skill demands, let alone the rising costs of acquiring said education.

In short, humans are fighting a losing battle with machines when it comes to the job market. Sure, technology will create many jobs we cannot even fathom today, but those jobs will require higher and higher levels of skill, unobtainable by the vast majority of the flesh-and-bone workforce.

According to the Bank of England, for instance, machines could take over 80 million American and 15 million British jobs over the next 10 to 20 years. That's 50% of the workforce in each of the two countries.

According to the latest Economic Report of the President, today's low-paying jobs (those paying less than \$20 an hour, or under \$40,000 a year for full-time workers) have a striking 83% chance of being automated in the near future. Medium-paying jobs (\$20 to \$40 an hour, or \$40,000 to \$80,000 a year) are at substantial risk, too, with a 31% chance according to the same report.

And the Center for Economic Research in Tennessee suggests that up 1.4 million people, or half of all current workers, are susceptible to losing their jobs to automation. Those facing the highest risk are workers without post-graduate experience.

There are countless studies that could be cited here, but you get the idea: automation is a real and growing threat to job seekers and, by extension, modern capitalism. After all, if no one is working, where will the demand for goods and services come from?

Wages and Automation

As low-skilled workers have faced mounting pressure from lack of job opportunities, there has been a rise in progressive thinking throughout the West in response. Income and wealth inequality are directly tied to the automation phenomenon (technological progress is boxing out low-salary demographics while enriching those with high salaries and education), prompting many leftists to consider initiatives such as wealth redistribution, "free" college, and increased minimum wages to combat the issue.

On the matter of increased minimum wages, this is the elephant in the room when it comes to automation. By artificially increasing the value of human workers, legislators are only exacerbating the problem for low-skill workers and providing a greater opportunity for tech companies looking to fill the void.

American economist Alan Krueger recently put out a rather scathing piece in the New York Times regarding California's new \$15 minimum wage legislation. According to Krueger, a \$15 minimum wage would "put us in uncharted waters, and risk undesirable and unintended consequences."

Among these unintended consequences is no doubt the increased threat of automation. In response to this legislation,



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Advancing in a Time of Crisis



Financial Crisis Report



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for instance, the California Restaurant Association put out a statement saying the law will force businesses to face "undesirable options" such as cutting hours, raising prices, increasing automation, and laying off staff.

The statement comes just two weeks after Andy Puzder, CEO of fast-food chain Carl's Jr., announced he is considering fully automated restaurants where customers would never see a person.

According to Puzder, "If you're making labor more expensive, and automation less expensive — this is not rocket science."

Puzder added:

"They're always polite, they always upsell, they never take a vacation, they never show up late, there's never a slip-and-fall, or an age, sex, or race discrimination case... Millennials like not seeing people. I've been inside restaurants where we've installed ordering kiosks... and I've actually seen young people waiting in line to use the kiosk where there's a person standing behind the counter, waiting on nobody."

Keeping the Free Market Alive

If raising the minimum wage will only compound the issue, then what — if anything — can be done for the low-skilled workforce? How can capitalism as we know it prevail in a world where half the people aren't worth their weight in flesh?

One possible solution to this dilemma that's gaining increasing popularity is basic income, or guaranteed minimum income (GMI). In short, basic income guarantees citizens a minimum income, removing the need for complicated welfare programs while keeping the free market

alive by giving people choice in what they purchase.

Basic income is being considered by an increasing number of government organizations. Ontario, for instance, recently announced that it would soon be sending a monthly check to residents (up to a minimum income) as it plans to launch an experiment testing the concept.

While officials have yet to release any specific details (how much will be given to residents, etc.), the finance ministry has published a report confirming the government's intention to roll out the experiment.

While certainly a form of welfare typically associated with the left, there is a solid conservative case for creating a wage floor. Noah Gordon goes into detail about this in a piece for *The Atlantic* titled, "The Conservative Case for a Guaranteed Basic Income."

Ben Schiller has also written a great piece for Fast Company calling universal basic income "*The Bipartisan Solution To Poverty We've Been Waiting For.*"

If you're interested in learning more about basic income, I highly recommend seeking out the articles above as a place to start. If you're interested in investing in automation, there are a growing number of companies now beginning to trade on the public market.

Like they say, if you can't beat 'em, join 'em.

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Past issues of the *Financial Crisis Report* can be found on the law office website www.miyoshilaw.com



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