

# The Economic Bubble Burst and the Lost Decade

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WEEK 2. JAPAN IN THE 21° CENTURY

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# The Great Shōwa Years (1955 – 1989)

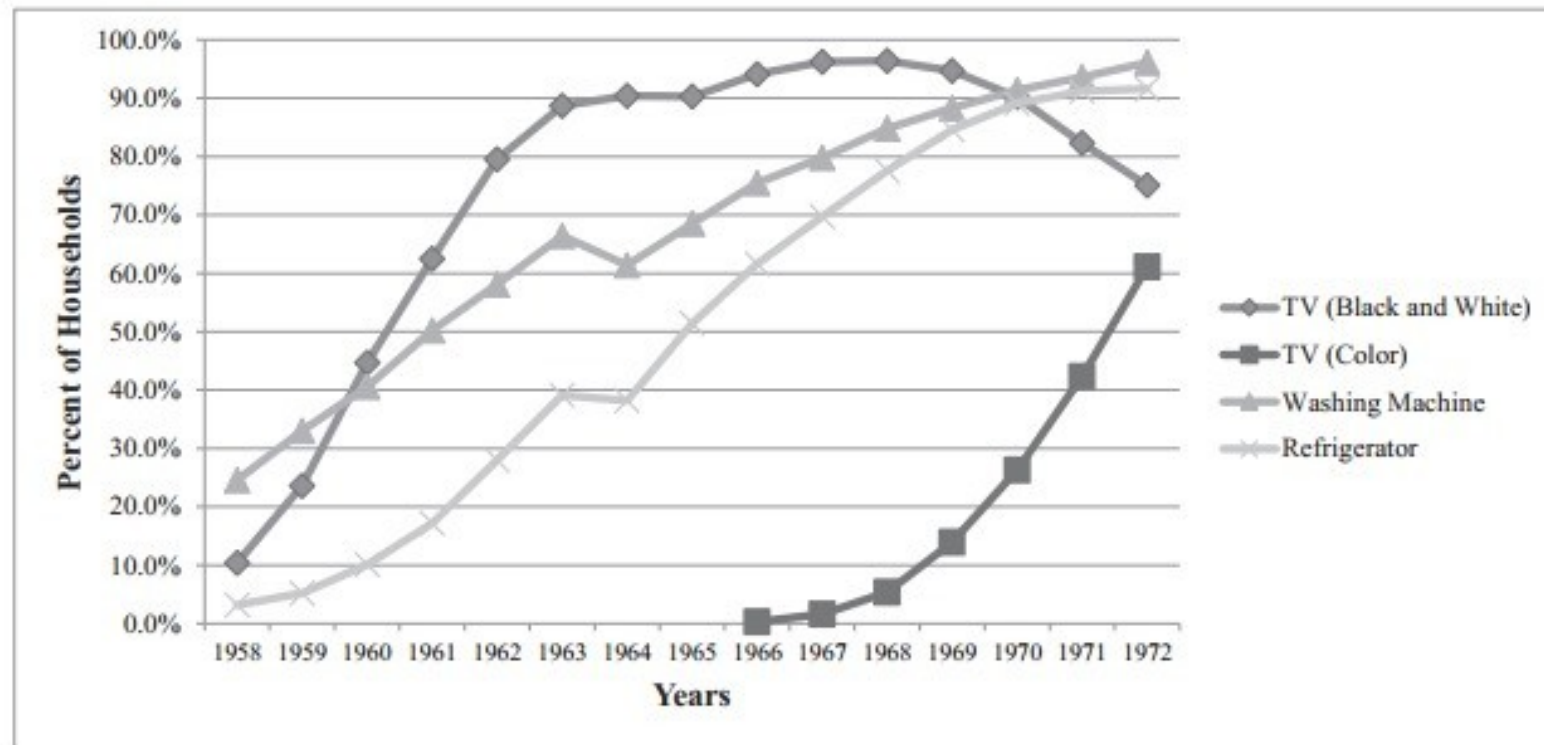
After the end of the American Occupation in mainland Japan (1952), Japan consolidated as a post-war democratic country.

Several events held in Japan, such as the Olympic Games in 1964 and the Expo in Osaka in 1970, helped reposition Japan as an international power that could have a say on the global stage.

The life of the average Japanese citizen was also filled with hope for the future and a good quality of life regardless of their social class.



# The Great Shōwa Years (1955 – 1989)



*Figure 1.6* Percentage of households owning major appliances. The dips between 1963 and 1964 for refrigerators and washing machines were due to changes in data collection. Prior to 1963 only nonagrarian urban households were surveyed. Statistically, too, the countryside was being integrated into the nation. Nihon nōritsu kyōkai sōgō kenkyūsho, ed., *Kurashito keizaino deita sōran 2005* (Tokyo: Seikatsu jōhō sentaa, 2005), 176–77 (for refrigerators, washing machines, and televisions [color]); Kokumin seikatsu kenkyūsho, *Showa 42 nendo ban Kokumin seikatsu tōkei nenpō*, 135; and Kokumin seikatsu sentaa, ed., *Kokumin seikatsu tōkei nenpō '77* (Tokyo: Shiseidō, 1977), 90 (for televisions [black-and-white]).





# Emperor Shōwa's Funeral

Emperor Hirohito (Shōwa) died on January 7<sup>th</sup>, 1989, putting an end to the Shōwa era.

Complex celebrations were held, not without protests, considering the figure of the Emperor and its connection to pre-WWII Japan and his war responsibilities.

The year after, in December 1990, the «Emperor's Monologue» was released, in a certain sense concluding the long post-war period.

# The End of the Shōwa Era

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«The short-lived bubble economy at the end of the 1980s was a period of collective hysteria, a crazy time of frothy fortunes, pie-in-the-sky projects, and lavish living that suddenly evaporated» (Kingston 2011: 24).

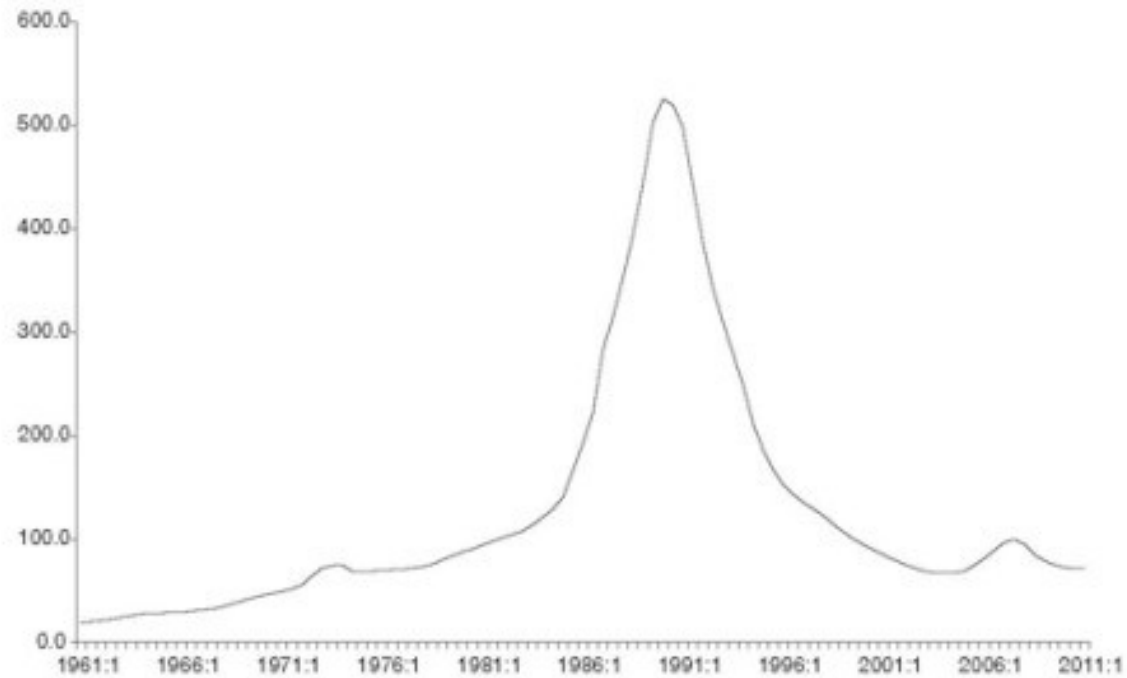
The «Bubble» Economy was majorly caused by loose monetary policy imposed by the Bank of Japan (through the government, to counter the increasing strength of the Yen), stimulating a rapid increase in the price of land and stocks (Kamikawa, 2006: 106).

Another cause was the reliance of banks on the real estate sector as a profit opportunity:

«The practice of collateral-based lending created a positive feedback loop: rising land prices prompted a series of upward revaluation of land as collateral, and this in turn fueled a further real estate boom» (Shioji, 2013).

# Land Assets

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*Figure 27.3* Evolution of land price index in Japan (six major cities, commercial use)

Source: Japan Real Estate Institute

Note: Biannual data

# The Bubble Burst

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Three policy changes are usually believed to have triggered the collapse:

1. A quantitative restriction on real estate loans implemented in March 1990 – it required the growth rate in real estate lending to be less than or equal to that of overall lending.
2. The introduction of a land price tax – legislated in 1990 and implemented in 1992.
3. Interest rate hikes by the Bank of Japan: in early 1989 it was 4 percent, but went up to 8 percent by the end of 1990.

Those concurrent policies triggered the collapse of the economic bubble – which was why they were implemented in the first place, although they probably came too late (Shioji, 2013).

# The Lost Decade (What happened after?)

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In the early 1990s the economic bubble burst, although a financial crisis did not happen. There are multiple reasons for this:

The banks in Japan were protected by the Ministry of Finance, meaning bankruptcy was unthinkable.

As a consequence, banks run a series of bad debts to keep unsolving corporations from declaring bankruptcy.

Although those corporations were kept alive for the time being, they did not produce profits and had to downsize before eventually dying out.

«The ‘three Ds’, post-bubble *deflation*, corporate *downsizing*, and shrinking-population *demography*, have come together over the past two decades in a mutually reinforcing way» (Metzler, 2012: 135).



# What is «deflation»?

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In short: the opposite of inflation.

Deflation is a «decrease in the general price level of goods and services» (Barro and Grilli, 1994: 142).

While this can be seen as a good thing – at least for the general public, it can actually have catastrophic consequences in the long term.

Decrease of profits for businesses can lead to corporate downsizing (as in the case of Japan), which eventually will turn to a higher unemployment rate and less financial stability.

- Ex: if prices keep decreasing, people will postpone buying.
- Even if they do, margins of profit will keep getting smaller.

Conversely, debts stay the same.

# The Lost Decade and the Lost Generation

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The Lost Decade (the period following the economic bubble burst) was characterised by a sense of collective anxiety given by the disruption of the heady optimism characterising the previous decades. In here, we count the post-war project of nation building and modernization, but also the speculation-driven «bubble» happiness that characterised the latter half of the 1980s.

«When asked about their images of prewar, postwar, and present (post-1989) Japan, respondents stated that they had the most positive view of the postwar period (1945 – 1989) until Emperor Hirohito's death, which was regarded as «vibrant» and «progressive». By contrast, the images they had of the prewar period (1926 – 1945) were «conservative» and «dark». Most remarkably, the «stagnant» and «dark» images that respondents associated with post-1989 Japan [...] surpassed those of prewar era. In other words, life in contemporary Japan is perceived as harsher than that of the prewar period, characterized as it was by fascism and military ideology» (Funabashi and Kushner, 2015: xxii).

# The Lost Decade and the Lost Generation

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The «lost generation» refers to «Japanese who finished school and tried to begin their working lives during the recession of the 1990s».

- The term became popular during the 2000s when the *Asahi Shinbun* published some reports about the condition of such people, dubbing their category as *rosu gene* (lost generation).

Most of the difficulties this generation experienced are due to corporate downsizing, meaning that companies were actively cutting back on hiring new graduates in an effort to reduce costs and survive in the difficult «post-bubble» economic environment (Brinton 2009: 115).

- This period is also referred to as the «Employment Ice Age (or *Shūshoku Hyōgaki* 就職氷河期 in Japanese), starting from 1994 to 2004.
- The «lost generation» was not only characterised by unemployment. New workers were indeed taken in companies, but only as temporary or part-time workers because of the lower costs. This accentuated ideas of precarity and defaced the myth of secure employment.

# What was lost?

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There are two kinds of losses, **absolute** and **relative**:

Absolute losses are numerical and quantitative losses in absolute terms;

Relative losses are due to the rise of the rest of the world while Japan stagnated (or did not increase enough compared to the competitors).

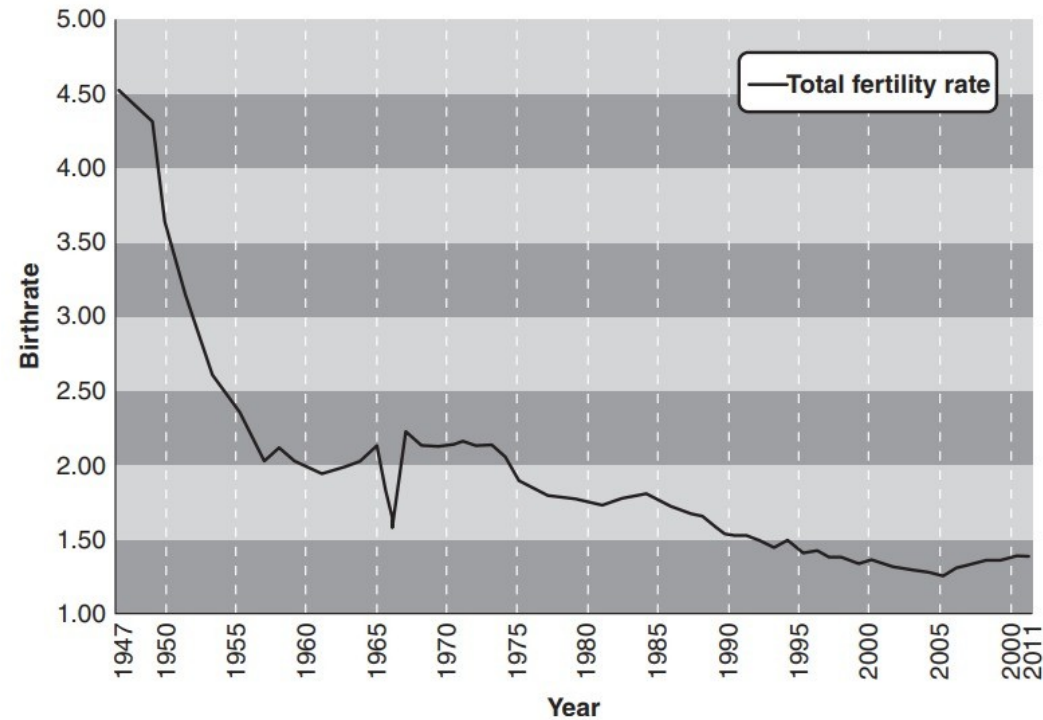
## **Ageing (aged) society:**

Japan's population aged (and is aging) at an unprecedented rate. Reasons for this include the improvement in life expectancy (similar to other countries such as Italy, South Korea and Germany) due to better life standards in the post-war period.

Another factor is the decline in the birthrate.

# Japan's Fertility Rate

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*Figure 1.1* Trends in the fertility (birth) rate in postwar Japan (1947–2011)

Source: Based on data from the *Demographic Statistics Data Book* (2013), National Institute of Population and Social Security Research.



# What was lost?

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In 1999, the Bank of Japan decided to adopt a zero-interest rate policy to attract companies. However, the policy did not work as intended and the bank kept hoarding government bonds instead.

The ratio of loans to deposits in Japan's large commercial banks dropped from roughly 80 percent during the pre-2000 years, to 60 percent in 2010.

Some statistics:

- In 1990 Japan was the world leader in international competitiveness vs 26<sup>th</sup> place in 2011.
- No. of Japanese universities to rank among the top 400 universities worldwide was 27 in 2005 and 16 in 2020. As a matter of example, the University of Tokyo (considered the most prestigious one in Japan) dropped from 16<sup>th</sup> in 2005 to 30<sup>th</sup> in 2012.

# What was lost, relatively?

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On the other hand, Japan's stagnation simply meant that Japan was to be surpassed by other countries eventually.

The major shock can be seen in 2010 when China overtook Japan as the world's second biggest economy.

During the period between 1991 to 2012, Japan's per capita GDP fell from 8<sup>o</sup> place in 1991 to 24<sup>o</sup> in 2012.

- However, Japan's GDP actually grew during this period, although not as much.

In the world's container port ranking, Yokohama and Kobe fell from 13<sup>o</sup> and 4<sup>o</sup> place in 1991 to 40<sup>o</sup> and 49<sup>o</sup> place in 2012 due to the so-called "rise of the rest".

# An age of uncertainties

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This economic phenomenon had obvious repercussion on society as a whole.

«The deterioration of the ‘monolithic postwar Japanese middle-class goals of good diploma, good job at a big company, and good marriages (for girls) ... used to socialize individuals into national subject’ led some youth astray as they began to ‘see the unhappiness and self-destructive conducts of adults still tethered to them» (Okabe, 2018: 95).

Media frequently started reporting the (self-)destructive actions of the Japanese youth, in so far as becoming part of the collective narrative of the lost decade.

# Youth A

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In the spring of 1997, a junior high student in the city of Kobe, known later on as Youth A (Shounen A), murdered and decapitated a sixth-grade boy.

While all the evidence pointed to a mature perpetrator, after months of investigations it was discovered that the perpetrator was indeed a local youth.

«The media began to describe this violent ‘heinous’ crime as the act of an ‘ordinary child,’ elevating concern about strangeness of the formerly certain and secure middle-mass, middle-class Japanese ordinary» (Arai, 2016: 4)

# The child problem

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«The child (of the child problem), a deeply naturalized representation of national identity and temporal insecurity, made visible a problem while obscuring the history and complexity of the problem's creation. Moreover, this focus on the child deferred questions about the conditions for the production of certainty and seeming prior lack of precarity that had characterized representations and experience of late twentieth-century Japan» (Arai, 2016: 4).

As mentioned before, the lost decade impacted the Japanese youth in several ways, economically, socio-politically, and culturally. Media focused on the most graphic representations of the phenomenon (e.g. violence), while the ramifications of the economic bubble burst are much more complex and subtle (e.g. inter-generational clashes, hikikomori phenomenon).



# In conclusion

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«Prolonged deflation, increases in irregular employment, stagnant wages, and uncertain future prospects could very well discourage people's aspirations; stifle their optimism, energy, and willingness to take risks; crush entrepreneurship; dull the luster of marriage; limit the desire to go abroad to study or work; and drive society toward narrow-minded nationalism. Despite these examples, it is difficult to say with pinpoint accuracy what Japan lost and what the country gained. Losses for some may also be gains for others. The optimal solution for one community can often be a suboptimal solution for the group as a whole. In employment, for instance, the flexibility longed for by employers is usually understood by employees as insecurity» (Funabashi and Kushner, 2015: xxxi).

# References

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Shioji, Etsuro. "The bubble burst and stagnation of Japan." *Routledge Handbook of Major Events in Economic History* (2013): 316-329.

# Required readings:

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The **Introduction** chapter in Funabashi, Yoichi, and Barak Kushner, eds. *Examining Japan's lost decades*. London: Routledge, 2015.