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Japan's Bubble, Deflation, and Long-term Stagnation

—Review of An Oral History Study—

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1. Introduction

The recent Great East Japan Earthquake dealt a heavy blow to the entire Japanese economy, stalling the process of gradual recovery that had been underway from the post-Lehman shock global economic and financial crisis. There was of course the human and material damage caused by the earthquake, tsunami, and nuclear power station incident. In addition, automotive and other industries were hit with parts supply backlogs and other supply chain disruptions, while rolling power cuts forced temporary cutbacks in and suspension of production, with exports too falling off. At the moment, Japan has no choice but to focus on restoring the affected areas, repairing local socioeconomies, and rebuilding lives. However, to ensure that recovery from the disaster doesn't stop simply with restoration but rather link it through to sustained prosperity from a long-term perspective, we need to learn from history and reflect those lessons in future institutional design and policy management.

In January 2007, the Cabinet Office's Economic and Social Research Institute (ESRI) with which I am affiliated, launched a research project entitled "Japan's Bubble, Deflation, and Long-term Stagnation" ("Bubble/Deflation Research Project"). The aim of this project was to provide an accurate and evidence-based account of economic trends and economic policies over the quarter-century of the rise and fall of Japan's economic bubble and efforts to combat the ensuing deflation. By closely examining and evaluating these trends and policies, the project sought to pass on reflections and lessons to succeeding generations as a contribution to future economic policy management. The results of that research have already been published in an 11-volume series bearing the same title as the project. Seven volumes engage in analysis and evaluation, comprising research papers dealing with specific areas. Three volumes are dedicated to history, compiling a record of that era. The final volume covers the four round-table discussions held to garner a bird's-eye view of the project as a whole[†].

This paper reviews from the author's perspective the results of the Bubble/Deflation Research Project with an emphasis on the oral history covered in volume 3 of history,

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[*] I thank Masahiro Hori (visiting research fellow, ESRI) and Susumu Kuwahara (research fellow, ESRI) for the many comments they contributed during the writing of this paper. ESRI president Yoshiyasu Ono also noted that it was valuable to know how those involved in the bubble/deflation era thought, regardless of whether they were right or wrong, and that we must utilize that knowledge and lessons learned to avoid the same mistakes in future. Finally, the views expressed in this paper and any remaining errors are of course the sole responsibility of the author.
*The English translation of this paper was done by Simul International, Inc. under commission from ESRI.

[†] The seven volumes of analysis and evaluation were published by Keio University Press in FY2009, while the three history volumes and the volume covering the round-table discussions were published by Saiki Printing Co., Ltd. in FY2010.

picking up on particularly interesting points. Volume 3 presents the results of a series of interviews conducted with politicians, bureaucrats, business managers, and other parties from the bubble/deflation period by the Oral History Working Group, a subgroup of the History Research Group. Reflecting the division of labor within the Working Group, part 1 of volume 3 presents interviews conducted by Professor Shigeru Matsushima from the Tokyo University of Science Graduate School of Innovation Studies and Professor Naofumi Nakamura from the University of Tokyo Institute of Social Science concerning the experiences of bubble/deflation period business managers and their perception of the times. Part 2 records interviews by Professor Harukata Takenaka of the National Graduate Institute for Policy Studies and Yutaka Harada, then-executive director and chief economist at Daiwa Institute of Research Ltd., with policy officials and finance industry representatives from the bubble/deflation period, dealing especially with the nonperforming loan issue.

This paper primarily addresses the content of part 2 with its focus on the nonperforming loan issue, but particularly in the section on lessons drawn from the bubble/deflation period, the scope of the interview material presented broadens to include messages from business managers who successfully rode out the protracted bubble/deflation period.

To anticipate the content of the paper somewhat, the main messages (or perceptions of the times) garnered from the excerpts of interviews could be summarized as follows:

(a) Factors behind the appearance of the bubble economy included the emergence as of the late 1980s of the myth of permanently low interest rates (prompted by foreign pressure, etc.) and the government policy of expanding domestic demand through private sector participation.
(b) Factors behind the collapse of the bubble economy included the introduction of quantitative restrictions on the extension of real estate–related loans and steep interest rate hikes.
(c) Factors behind the accumulation of nonperforming loans included an unexpectedly sharp plunge in land prices, excessive optimism over the disposal of nonperforming loans, and the way in which examinations of loans secured by land and real estate were effectively crippled.
(d) Lessons from history include the need to pay close attention to asset price trends and prioritize domestic economic policy over external policy, and that slow cleanups can exacerbate the situation.

It is a historical constant that people will have different interpretations of events that have occurred, and that there may in fact not be many areas of consensus. Nevertheless, taking down directly the diverse perceptions and arguments of the various pundits (and parties involved) as a record of the times is in itself highly significant, and hence that was indeed the editorial policy of the Bubble/Deflation Research Project. As a result, however, it might be difficult to draw an overall message with a clear direction just from the content presented in this paper. My own preference would be to leave that final task to readers. At the same time, having been involved in putting together the results of the research project, I recognize that the massive amount of highly specialist information presented in the 11-volume series makes it a little daunting to the general reader. What I have tried to present in this paper is personal notes summarizing those points from the research results that I as a reader found particularly interesting in the hope that it will lead readers into the series and encourage them to look at individual volumes, even if just those portions which are of special interest to them.

2. From the Oral History Section of the Bubble/Deflation Research Project

The three history volumes of the Bubble/Deflation Research Project were created with the aim of describing as factually as possible the state of the Japanese economy since the 1980s and the various policies pursued. In particular, the third volume, *Nihon keizai no kiroku—jidai shogenshu* [Record of the Japanese Economy—An Oral History], comprises interviews with those involved in policy and business management during the bubble/deflation period, and is extremely interesting in terms of understanding what realities and contemporary perceptions actually drove the decision-making of parties from that era. Here we review that content with a particular emphasis on the factors behind the emergence and collapse of the bubble economy that left such a major impact on the Japanese economy. The paper also looks at the nonperforming loan debacle that triggered the period of economic stagnation known as the "lost decade" (or indeed two decades?), as well as lessons deriving from the experience of the bubble/deflation economy, which was one of the original aims of the research project.

2.1 Why did the bubble economy occur?

Economic bubbles are said to occur when asset prices diverge from economic fundamentals, and in the late 1980s, there was certainly a marked rise in land and stock prices. At the same time, because the strong yen and cheap oil were keeping commodity prices stable, the Bank of Japan (BOJ) retained a historically low interest rate of 2.5 percent, a policy which is argued to be one cause of Japan's economic bubble. Let us start with the views of contemporary players from the Ministry of Finance (MOF), the BOJ, and elsewhere as to what caused the bubble, the interest rate question included.

Following the September 1985 Plaza Accord, the yen appreciated more strongly than expected, precipitating a recession that was met with a succession of interest rate cuts. When the burgeoning of the US trade deficit in early 1987 again pushed the yen sharply upward, Japan's interest rate hit a postwar low of 2.5 percent. In February 1987, the Louvre Accord was signed in an act of policy coordination aimed at stabilizing the dollar. Japan's low interest rate policy continued from February 1987 through to May 1989 in response to certain external factors (Black Monday, etc.) as well as the internal factor of stable commodity prices. BOJ and MOF personnel indicated similar views in regard to the external factors.

Former BOJ executive director Yoshio Suzuki notes that where the Japanese and German economies had been picking up as of mid-1987, the Louvre Accord concluded in February 1987 to redress the excessive dollar depreciation caused by the September 1985 Plaza Accord made it politically difficult to raise the interest rate, creating a contradiction between international policy coordination and domestic policy. According to Suzuki, the BOJ became concerned that the ultra-low 2.5 percent interest rate (February 1987–May 1989) might lead to economic overheating, so in December 1987, it coordinated with Germany behind closed doors to raise the official discount rate and used its usual monetary adjustment function to induce a slightly higher call rate. However, this generated expectations of higher German and Japanese interest rates, with investors' calculation that the rise of both Japanese and German interest rates would again push the dollar down ending in Black Monday (October 1987). Measures such as dollar-buying interventions were implemented to close this situation down, and while this international policy coordination succeeded, it also created the myth of permanently low interest rates, the logic being that the BOJ would never be able to raise the interest rate because it would have to wait indefinitely for the weak dollar to recover, effectively tying down Japan's interest policy. Banks and real estate agents then got together to invest in land, sending land prices skyrocketing and triggering the bubble economy [History, Volume 3, p. 561].

Former MOF Banking Bureau councillor Sei Nakai recalls that MOF's International Finance Bureau thought that it was incumbent on countries running trade surpluses and creditor countries to maintain low interest rates (2.5 percent) and supply capital to the world. What caused the bubble, he believes, is this excessive concern with the issue of external imbalance, as well as keeping the low interest rate in place for so long out of fear that raising it would cause another Black Monday and destroy the international equilibrium [p. 261].

MOF officials also suggested that one key factor was the stability of commodity prices causing the right timing for an interest rate hike to be missed.

Former vice-minister of finance for international affairs Toyoo Gyoten observes that some BOJ officials felt that while asset prices might have soared, stable commodity prices meant that there was no inflation risk. Hence, rather than tightening money in response to an extremely overheated situation, low interest rates were retained in response to the social climate, which could not see why any such tightening was necessary and consequently opposed it, and this led to the bubble economy [p. 511]. Nakai too notes that stable commodity prices also contributed to missing the right timing for an interest rate hike [p. 261].

At that time, Prime Minister Nakasone had instituted domestic demand expansion policies such as involvement of the private sector and urban redevelopment that were designed to redress the imbalance in the international balance of payments. Development projects using private sector participation (development of the oceanfront area in Tokyo Bay, disposing of state-owned land, etc.) may have created an asset price spiral in that they pushed up speculative land demand, which in turn affected stock prices. Steeply climbing stock prices then made it easy to procure funds, further increasing land demand. This scenario would suggest that the stock and land price bubble was the product of policy decisions.

A private-sector view on this issue was expressed by former Fujita Corporation executive vice-president Keishi Kawamata. He points out that where a ceiling of around 1.25 times the posted price—the top price allowed under the National Land Use Planning Act—was supposed to have been set for land bought using private-sector capital under the Nakasone administration's scheme, the sites of the National Railway Corporation's Shinagawa East Cargo Yard and the Legal Training and Research Institute in Kioi-cho, Tokyo, were sold at four times the posted price on the grounds that public institutions' land sales were exceptions to that legislation. This move, he asserts, was a policy mistake on the part of the government and a catalyst for the bubble economy [p. 123]. He also suggests that what triggered the rise in land prices in the 23 wards of Tokyo, and particularly the three central wards, was a forecast by the National Land Agency's Metropolitan Areas Development Bureau in May 1985 that office demand in Tokyo would increase to around 5,000 hectares, or the equivalent of the office space in 250 skyscrapers.

In addition, former member of the House of Representatives Takujiro Hamada proposes that the government's protection of banks—the so-called convoy system—left banks unused to competition and consequently unable to exercise a level of moderation. Moreover, the long period of extremely easy money encouraged banks to overextend themselves in terms of lending and asset purchases. That was what caused the bubble, and it was at least partially the administration's fault [p. 414]. Former Long-Term Credit Bank of Japan (LTCB) executive Noboru Yanai also identifies the extended period of overbanking as a factor in the emergence of the bubble economy. He recalls that for the LTCB, the end of the high-growth period was accompanied by a capital investment pullback by major firms and a gradual decline in long-term capital demand. The LTCB accordingly began to look from large firms to medium-ranked firms and then from medium-ranked firms to small and medium enterprises as new sources of capital demand, and ended up financing real estate projects and real estate–related projects, attracted by their large-lot collateral, and that was what caused the economic bubble. A further factor was that ongoing overbanking prompted banks to compete among themselves for new clients, leading them down the road of real estate financing [p. 497].

2.2 Causes of the bubble economy collapse

Having closed at an historic peak of 38,915 yen on December 29, 1989, stock prices changed direction sharply, plunging by 202 yen on January 4, 1990, the first trading day of the year, and simply continuing to slide. As for land prices, metropolitan land prices are said to have launched into a major downturn as of 1991 (1989 in the case of Tokyo). Officials and business managers agree that the quantitative restrictions on the extension of real estate–related loans, a factor in the sharp decline in land prices, were also the trigger for the collapse of the bubble economy. This section summarizes causes of the bubble economy's collapse, focusing in particular on the slump in land prices.

In response to public demand for land price restraint, as of 1987 the government adopted a succession of land price measures, but many of the actual parties from that era see the quantitative restrictions on the extension of real estate–related loans that were introduced in March 1990 as having been particularly potent. MOF and BOJ personnel as well as politicians and others all expressed the same view.

For example, former MOF Banking Bureau councillor Nakai observes that since the land price countermeasures taken by the National Land Agency appeared to be having no effect, quantitative restrictions on the extension of real estate–related loans were instituted in March 1990 under the guidance of the Cabinet Office as a monetary policy that would rectify the problem. Because this happened just when banks were feeling that they had lent too much and would have to pull back, it had a greater than expected effect. If these quantitative restrictions had therefore been abandoned six months earlier than the actual date of December 1991, the situation would have been different [p. 264]. Former executive secretary to the prime minister Yoshio Nakajima too comments that looking back now, the land-related quantitative restrictions seem to have been the factor that really turned the Japanese economy upside down. It was unfortunate that very few people were able to recognize this at the time [p. 456].

Former BOJ executive director Suzuki notes that because land prices had continued to rise throughout the postwar period, the myth that land would always appreciate seemed unlikely to crumble over something minor. However, the constraint on land-related lending imposed by the March 1990 quantitative restrictions on the extension of real estate–related loans had a much more powerful effect than the BOJ's monetary tightening [p. 570]. Former member of the House of Representatives Hamada is also of the view that the quantitative restrictions (March 1990–December 1991) were too late [p. 400].

Similar official government calls for banks to restrain their land transaction–related lending were issued in 1972 during the investment boom prompted by the government's plan to remodel the Japan archipelago, and again after the first oil shock in 1975. This time, however, as noted above, land prices stopped rising as of 1989 in the Tokyo area and land transactions too declined as of the mid-1990s, so it would seem that as of around the time when the quantitative restrictions were instituted, trends in land supply and demand and speculative investment were in the process of changing. Hamada further points to the adoption of a notification system for land transaction prices under the National Land Use Planning Act and the introduction of a heavy taxation system for land sales that imposed a capital gains tax of up to 39 percent (income tax of 30 percent and resident tax of 9 percent—making a total of 39 percent in additional taxes—levied when individuals buy land held for not more than five years). These two schemes together with the quantitative restrictions made up the triumvirate of factors collapsing the bubble [p. 400].

In addition, in May 1989, the BOJ instituted monetary tightening for the first time in nine years in order to stop economic overheating causing inflation. According to Suzuki, the general rule for monetary policy is early but small shifts (usually 0.25 percent at a time), but in May 1989, the official discount rate was raised 0.75 percent to 3.25 percent and went on from there to a peak of 6 percent in August 1990 (which was also too late), and this is what prompted the bubble to burst [p. 570].

2.3 Factors increasing nonperforming loans

The Japanese economy struggled during the protracted clear-up of nonperforming loans. Having climbed steadily throughout the postwar period, land prices began to tumble as of 1991, prompting the emergence of bad debts, but the real financial crisis didn't begin until the mid-1990s. In the end, around 60 trillion yen in public funds was injected and by 2005, the nonperforming loans carried by the banking sector had reached 118 trillion yen, propelling the entire financial system into a state of crisis. This section focuses on the question of why bad debts piled up to such an extent, summarizing oral histories concerning the path up to that point.

The first issue in relation to nonperforming loans is the question of the scale which financial institutions' bad debts had reached before the severity of the situation was recognized. Even after the bubble economy collapsed, the sense of crisis over the bad debt issue was initially quite limited. Personnel from both MOF and private-sector financial institutions concur that banking circles blithely assumed that because of the massive unrealized capital gains on stockholdings, even if bad debts increased, those stocks could simply be sold off.

Former vice-minister of finance for international affairs Haruhiko Kuroda suggests that, despite stock and land prices beginning to plummet as of 1990–91, the reason that a full-scale financial crisis did not take place until October 1997 was because banks had several trillion yen worth of unrealized gains on land and stock dating back to the prewar period. This huge store of unrealized gains was also the reason that, unlike in the United States, the introduction of public capital was delayed [p. 536]. On the bank side, former LTCB executive Yanai observes that in the early 1990s, some bank staff were deeply worried about the increase in bad debts caused by a further downturn in land prices, but bank management optimistically believed that the massive unrealized capital gains on stockholdings would allow banks to simply dispose of those stocks if they had to (in other words, all they needed was a following wind) [p. 474].

As for the actual nonperforming loan burden, in April 1992, MOF announced for the first time how much bad debt financial institutions were carrying, but that was followed by major upward revisions, etc., that suggest some confusion over the exact situation. Personnel from private-sector financial institutions, MOF, and the BOJ offered some fascinating insights on this point, touching on issues such as MOF interviews with financial institutions and disclosure of the size of the bad debt burden.

Yanai reports that MOF’s Banking Bureau recognized the severity of the nonperforming loan situation in around 1992, conducting interviews with the various banks about their bad debts. However, the definition of a bad debt was extremely loose, and a strong village mentality also prevailed, with the personnel at the various banks who were in charge of dealing with MOF representatives exchanging information among themselves and rounding off the figures they reported accordingly. These factors delayed both the disclosure of and responses to the bad debt burden [p. 474].

Former MOF Banking Bureau councillor Nakai ascribes the slow response to dealing with bad debts to the unexpectedly steep plunge in land prices and the fact that small and medium-sized and local financial institutions were in competition with the postal savings scheme to capture deposits. These institutions were opposed to disclosing their bad debts because their position was weaker than that of postal savings, and they were afraid that disclosure could cause them to lose out on deposits and push them into the red [p. 299].

Former BOJ executive director Suzuki comments that MOF must have realized that the *jusen* (nonbank housing loan company) issue was simply the tip of the bad debt iceberg, and that an austerity budget at that point would set the whole issue alight. However, the formulation of the Fiscal Structural Reform Act as well as the feeling that it would be dangerous to tell politicians the truth about the bad debts because it would bring the problem out in the open meant that politicians were left uninformed and nonperforming loans continued to accumulate. (Then-chief cabinet secretary

Seiroku Kajiyama apparently later regretted not knowing how serious the bad debt problem really was.) [p. 574]. It would therefore seem that inadequate awareness of bad debts and the idea that disclosing information such as the actual volume of nonperforming loans would conversely be disadvantageous were factors behind the bad debt pileup.

Another issue from the outset was that the assets securing financial institutions' loans continued to decline beyond what anyone at the time had expected. There were three testimonies from MOF regarding the relation between the drop in land prices and bad debts.

Former director-general of the MOF Banking Bureau Nobuyuki Teramura notes that if land prices had stayed at the pre-bubble level (around 1987), it would have been quite possible to dispose of bad debts using net business profits. However, land prices began sinking in 1991, dropping to 50 percent of the peak level in 1994, while by 2004 they had fallen again to around 80 percent of the 1994 level. As a result, even when bad debts were cleared, more simply appeared in their place [p. 221]. Teramura also addresses the question of why the commercial land price index sank to the 1973 level rather than stopping at the pre-bubble level. The only answer he can see is that a structural change occurred in land prices, which had continued to grow at an abnormally rapid rate—faster than economic growth—for the 50 years of the postwar period. This change was caused by Japan's population concentrating in cities at the fastest rate ever, sending housing demand soaring. However, while laws such as the Land and Building Lease Act, the Agricultural Land Act, and the City Planning Act were regarded as necessary regulations in terms of ensuring fairness and the public interest, they ended up constraining the supply of residential land and consequently causing an abnormal surge in prices for that land [p. 221].

Former director of the Commercial Banks Division in the MOF Banking Bureau Toshiyuki Tsukazaki notes that the proper role of financial institutions is to provide loans without relying on collateral and use inspections to ensure that loans are repaid, and that interest needed to be collected on loans congruent to the risk. However, many small and medium-sized and local financial institutions instead pursued the business model of covering losses on irrecoverable debts by using collateral such as real estate and land, based on the myth that land would always gain in price. As a result, they were completely exposed to the plunge in land prices, creating the bad debts that triggered a crisis across the financial system [p. 392].

In addition, because the massive bad debt burden impacted on financial institution operations and caused managers to become far more cautious about lending, even the real economy was affected, and particularly those methods used by the *jusen* companies to dispose of bad debts became a political problem. According to member of the House of Representatives Koichi Kato, around December 15, 1995 when the next year's tax framework was decided, then-administrative vice-minister for finance Kyosuke Shinozawa and director-general of the Minister's Secretariat Yoji Wakui came along beforehand to explain the injection of public funds, which was a key item in the budget negotiations. As LDP secretary-general at the time, Kato agreed to an injection of 685 billion yen into the *jusen* companies, but he did not foresee the opposition in the form of disorder and session boycotts, etc., that would occur the following year, to the extent that that Diet session became known as the "*Jusen* Diet" [p. 438].

Teramura recalls that MOF's stance was that no injection of public funds should be made before financial institutions became insolvent. However, the budget negotiations at the end of 1995 when financial institutions had not yet reached that point resulted in a 685 billion yen injection of public funds to deal with the *jusen* problem. To respond to public criticism and get the bill through, the minister of finance had to promise in the Diet that no further injections of public funds would be made. This meant that in 1997 when unrealized capital gains on stockholdings ran out and public funds were really needed, MOF's hands were tied, an episode that will stand as a major blot in the history of financial administration [p. 234].

The view that this resistance to introducing public funds was to impact on subsequent bad debt disposal policies was also shared by other involved parties, a number of whom are quoted below.

Kuroda notes that when public funds were channelled into the *jusen* companies in 1996, Prime Minister Hashimoto met criticism in the Diet, forcing him to say that there would be no further such injections, and this ended up hampering efforts to clear up bad debts [p. 534]. Suzuki recalls that in response to the Hashimoto administration's declaration that putting paid to the *jusen* issue in 1996 spelled an end to the bad debt issue as a whole, as well as the economic recovery in the mid-1990s, in FY1997 the government put together a super-austerity budget with a deflationary impact of 13 trillion yen and engaged in financial structural reform. The result was zero growth for FY1997 and negative growth of 1.5 percent for FY1998, pushing the economy into a slump and delaying the bad debt clear-up [p. 574].

In the process of the bubble economy collapse from the 1990s onward, there were moves to make the inspection sector independent again on the grounds that inadequate inspection functions had abetted easy financing. Yanai notes that various banks introduced sales management divisions like the one which Sumitomo Bank successfully copied from a foreign-affiliated consultant firm (whereby inspection functions are incorporated into the sales and marketing division to reinforce their customer orientation). The effective result was that loans went ahead in the absence of an inspection section and this complete paralysis of inspection functions became another cause of bad debts [p. 489].

2.4 What lessons can be learned from the bubble economy experience?

What should we learn from the bubble/deflation experience of the last quarter-century? In this section, in addition to policy-makers we also consider the reflections and lessons arising from the bubble economy experience of business managers in particular.

Looking first at testimonies from policy-makers, MOF officers observed that even though they were actively involved during the bubble period as policy-makers, they were unable to perceive the seriousness of the situation even when they had become aware of the bubble or during the bubble's collapse.

Former director-general of the MOF Banking Bureau Teramura notes that the generally accepted thesis now was that the monetary easing following Black Monday on October 19, 1987, accompanied by West Germany raising its official discount rate in 1988 while the BOJ failed to follow suit, was what generated massive liquidity and the consequent change in the bubble. However, he stresses that at the time, there was absolutely no sense of this [p. 213]. Former executive secretary to the prime minister Nakajima too notes that during the bubble period, very few people recognized the bubble as a real threat, and similarly during the bubble's collapse, it was difficult to see clearly that something very serious was occurring [p. 456].

It would appear to be this failure of perception that caused the delay in dealing with the bubble economy, but MOF officers, politicians, and others point out that there was very little debate at the time over issues such as the delay in policy shift when the bubble economy emerged and in the policy impact when policies were instituted.

Former MOF Banking Bureau councillor Nakai reflects that when the first signs of asset inflation emerged, they should have moved a little faster to curtail that momentum to prevent the future emergence of a bubble [p. 263]. Former vice-minister of finance for international affairs Toyoo Gyoten also notes that policy-makers should have looked more deeply into the implications of policies before they were instituted. There is always the trade-off of scenario creation, but the reality is that policy choices were often very haphazard [p. 512].

Former member of the House of Representatives Hamada felt that the delay in policy shift was one factor causing the bubble to grow too large, and a similar delay was also responsible for the bubble collapsing too far. That delay was the fruit of the overly rigid vertical divisions down administrative organization [p. 417].

In addition, the Japan-US trade imbalance at the time influenced the decision to keep the interest rate to be maintained at a low 2.5 percent, and personnel from both MOF and the BOJ noted their regret that policy had not been pursued with more of a priority on Japan (the institution of monetary policies dealing with skyrocketing asset prices).

Nakai states that while the primary cause of the US trade deficit was US overspending, Japan got too caught up in the bilateral trade imbalance issue and as a result sustained a low interest rate (2.5 percent) policy. He feels that the lesson from that period was that more thought should have been given to the economic balance at home (the institution of monetary policies dealing with skyrocketing asset prices) [p. 262].

Former BOJ executive director Suzuki notes that some BOJ officers felt that if Japan raised its interest rate, there would be another Black Monday and that Japan mustn't disrupt international policy coordination. However, when Germany started raising its interest rate by 0.25 percent increments as of July 1988, if Japan too had lifted its interest rate at the same time, the BOJ could have overridden the permanent low-interest myth and announced an interest rate rise. He believes that the BOJ should have pursued policies with more of a domestic priority [p. 564].

In terms of lessons from the asset price rise, while this was picked up by the media and made into a social issue that was even debated in the Diet, Suzuki observes that the interest rate was not lifted because of the stability evinced by domestic commodity prices. However, while asset price movement is not generally considered a monetary policy goal, more attention should have been paid to that movement as an interim goal and an interim indicator [p. 564]. Similarly, former BOJ executive director Akira Aoki feels that around 1987–88, when asset prices rose despite stable commodity prices, the BOJ should have taken a strong policy stance and announced that if the official discount rate wasn't raised, there would be trouble ahead. He also suggests that MOF should have consulted with the government and engaged in a strong and wide-ranging PR campaign to the effect that these high asset price figures were emerging [p. 583].

Finally, in relation to financial inspections and supervision, MOF officers point out that the sense of security arising from the presence of retired MOF personnel in financial institutions as well as the rather simplistic view that as part of financial liberalization, the government's supervisory authority too should be minimized to the greatest possible extent led to overly lax inspections and supervision.

Nakai observes that when *jusen* management starting going off the rails, MOF too launched an investigation, but made the mistake of self-importantly treating companies like *jusen* that were listed on the exchange and drawing a profit, and, moreover, that included former MOF personnel on their staff, as virtually under direct MOF jurisdiction and making the comfortable assumption that such firms could therefore not possibly go under [p. 269]. Former director-general of the MOF Banking Bureau Yoshimasa Nishimura notes as a later regret that the time had come to change long-standing administrative practices in Japan in regard to the relationship between the bureaucracy and those parties under supervision. Rather than acting like the police and handling inspection and surveys and dealing with problems such as these as though the other party were a criminal, MOF personnel tended to regard personnel at financial institutions as fellow human beings and colleagues who had worked with them to build up the financial system, an attitude which produced too much leniency [p. 334]. In addition, former director of the Commercial Banks Division in the MOF Banking Bureau Tsukazaki recalls in relation to financial inspections in the early 1990s that as part of financial liberalization, the simplistic assumption was made that government supervisory authority should be minimized to the greatest extent possible, resulting in too few staff being assigned to inspections and supervision. However, because financial liberalization cuts back of the number of advance or preventive regulations, MOF should have conversely bolstered the number of supervisory staff and stressed institutional requirements (although the media would have strongly resisted this on the grounds that it ran contrary to liberalization), conducting meticulous inspections and supervision [p. 359].

From the private-sector financial institution side, former LTCB executive Yanai believes that the biggest factor behind the failure of Japanese banks as a whole to deal with the bubble economy was the failure of top management to stem the negative chain reaction. In other words, the same people who had flown the flag of the bubble economy were then left to clean up the mess, and when they realized that they wouldn't be able to wipe it all away, they moved as fast as possible to cover it up even in financial inspections. These top executives who didn't know the meaning of self-abnegation were what caused the bubble cleanup to fail [p. 475].

Finally, let's look at the lessons that business managers identify. During the post-bubble deflationary recession, consumer buying behavior changed. Some distributors such as Daiei and Mycal went bankrupt, but other companies came through the crisis to actually expand their power. Takuya Okada (honorary chairman of Aeon Co., Ltd.), Toshifumi Suzuki (chairman and CEO of Seven & i Holdings Co., Ltd.), Hirotake Yano (president of Daiso Industries Co., Ltd.), and Yohei Suzuki (president and CEO of Suzuyo & Co., Ltd.) share the view that the reason their firms survived was that they didn't try to make money through investment in real estate or other areas outside their principal business during the bubble period.

Okada from Aeon holds to the principle that whatever goes up will come down, and whatever goes down will come back up. Consequently, even when land prices were soaring during the bubble period, his company did not buy real estate or golf courses but rather restricted itself to responding directly to consumers, its proper role as a retailer, and did not even branch into wholesale or manufacturing, with the result that the company was unaffected by the collapse of the bubble [p. 17].

Suzuki from Seven & i Holdings notes that from the time it was established, Ito-Yokado did not seek to increase its assets through real estate and stock investment, but rather observed the basic policy of making a profit and growing through its principal business. Making money out of buying and selling land was regarded as poor form, and the company chose to engage in business without investing in real estate even from the perspective of incidentally profiting. As a result, even when the collapse of the bubble sent land prices tumbling, the company was not significantly affected [p. 57].

Yano from Daiso Industries observes that because yen appreciation and depreciation don't matter to consumers, neither were they part of the company's management policy. Adopting the philosophy of pursuing no value except bankruptcy, Daiso was only interested in whether or not goods sold, and was not concerned about making money or making a profit. Rather than dabbling in stocks, M&As, and other sidelines, the firm regarded itself as its own rival. Yano also believes that the firm's practice of disregarding past trends and successes and making fresh decisions each time was a factor in getting the company through the bubble period [p. 84].

Suzuki from Suzuyo suggests that anyone managing a firm instinctively wants to try to expand their business, but to get by in a local area (Shimizu City, Shizuoka Prefecture) and in amid social change, it is better to operate at an appropriate scale which is easy to steer and avoid excessive borrowing. For that reason, the firm is still not listed (and therefore wasn't affected by the decline in stock prices). As a result, almost no companies across the entire group went into the red even after the collapse of the bubble [p. 173].

Identifying management policies that helped his firm survive the bubble/deflation period, Suzuki from Seven & i Holdings notes that up until the 1970s, there were not enough goods, so even during recessions, if you lowered the price of goods, people would buy them. As of the 1980s, however, consumption saturation has meant a change from a seller's to a buyer's market. Particularly after the bubble collapse, consumer needs shifted from cheap to something new or something with new value—in other words, consumers were no longer focused on price but rather on *value*. After the bubble collapsed and deflationary sentiment started to prevail, most retailers launched discount stores, but Seven-Eleven chose to pursue a psychological factor (the degree of customer satisfaction) rather than the economic principle of cheap or expensive product prices, which may have helped it to survive the bubble's collapse. Taking another company as an example, Uniqlo didn't just go for cheap but also mixed in *new*, a strategy which earned it customer support and success [p. 52].

Suzuki adds that to survive that post-bubble phase when nothing was selling, it was important to stimulate consumer mentality, so rather than simply applying a 10 or 20 percent discount, holding 5-percent "consumption tax back" sales and otherwise adding meaning to information made it easy to reach the minds of consumers resistant to the consumption tax and had a major impact on product purchasing. In the case of cash-back sales, whereby customers receive cash for the discounted portion of the price, people feel quite differently about 20 percent discounts and 20 percent cash-backs. In other words, rather than getting a 20 percent discount on a product and paying 4,000 rather than 5,000 yen, paying 5,000 yen and getting back that 1,000 yen from the 20 percent discount in cash makes consumers want to spend that 1,000 yen on something else because they feel they've done better than if they'd just received a discount. Such psychological analysis is also important, Suzuki believes [p. 66].

3. Conclusion

What has the Bubble/Deflation Research Project and the recording of oral histories revealed about the bubble/deflation period? What results has the project produced? While there is no single answer, if I may risk misunderstanding, perhaps what we have identified is that those who lived through the bubble/deflation period perceived it in very diverse ways. In that sense, the 11-volume bubble/deflation research series has great value in providing an overarching record of those wide-ranging contemporary perceptions. Focusing on the oral histories, personnel from MOF, the BOJ, and various financial institutions, as well as business managers all experienced that era of dramatic change from different positions and different angles. Only by overviewing these diverse testimonies with their multiple perspectives does it become possible to develop a three-dimensional picture of the complex bubble/deflation phenomenon. In that sense, leaving an account of this nature is a task of great significance, enabling different discoveries according to the particular approach to the material. I hope that the fruits of this research project will be utilized in modern history research as long-lasting reference material, as well as in future institutional design and policy-making.

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