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1990 Japan Economic Crisis

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Abstract: What can each country learn from this? How can economic crises be effectively avoided? When an economic crisis occurs, what can be done to avoid adopting the wrong policies? This paper is based on the economic crisis that occurred in Japan in the 1990s because of the rapid appreciation of the Japanese yen following the signing of the Plaza Agreement. The paper is divided into four sections to analyze the Japanese economic crisis of 1990. It describes the following questions: what led to the crisis in Japan; what impact the crisis had on Japan; what methods the Japanese government used during the crisis and what lessons the crisis brought; what each country can learn from it; and whether they can do better than the Japanese government did when it faced the economic crisis in 1990. Through the study, this paper finds that the Japanese government in 1990 did not immediately deal with and make adjustment plans when faced with the crisis. Secondly, it maintained an optimistic attitude. This is what led to the creation of the economic crisis. And this economic crisis pressed the pause button on Japan, which was growing at a fast pace, and stagnated the Japanese economy for 10 years. The effects of Japan's high ageing population and high divorce rate in that period continue to this day and seriously affect a country's economic development.

Keyword: Japanese economic crisis, Japan, Bank of Japan, 1990

1. Introduction

The event occurred when Japan signed the Plaza Accord and the set of problems that resulted. The impact of the Plaza Accord was immense and it affected not only the Japanese economy but also the attitude of the Japanese people towards the government and its perceptions.

In this essay, we will look at the causes of the economic crisis in Japan, what policies the government issued in response to the crisis and what can be learnt from this crisis in Japan. Over time, many scholars have researched and analysed the Japanese economic crisis to varying degrees. This essay will collate and analyse this information by collecting different information. It will analyse the causes of the economic crisis in Japan and whether the policies adopted by the Japanese government were correct or effective. Through this analysis, it is hoped that it will be possible to determine what could have been done to avoid the economic crisis and what could have been done to minimise the damage when it did occur.

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2. Cause of Crisis

Japan suffered one of the longest-lasting economic crises in its financial history. After the war, Japan's economy experienced several ups and downs. Due to its status as a defeated country, Japan faced huge reparations, and its economy was on the verge of collapse. The United States lent a helping hand to the Japanese economy to change Japan's traditional view of the emperor and its desire to dominate the Japanese economy. Thanks to a strong infusion of investment from the United States, the Japanese economy was brought back to life. In the 1970s, Japan ranked second in the world in terms of GNP after the US [1]. By the late 1980s, Japan ranked first in the world in terms of GNP. But all this success came to an end in the early 1990s. The US deficit grew sharply, and the foreign trade deficit grew significantly due to the huge volume of imports the US was making at the time. The US hoped to improve the US balance of payments imbalance by devaluing the US dollar to increase the export competitiveness of its products. In the year 1985, the United States and the remaining four countries signed the Plaza Agreement [2]. Japan was relying on a large amount of export trade to become the second-largest economy in the world that year. After the signing of the agreement, the yen appreciated significantly. A huge amount of money poured into Japan's real estate market, and market speculation seemed to automatically allocate resources but failed to generate incremental amounts as manufacturing did. Instead of generating virtually any wealth, it inadvertently increased the gap between the rich and the poor. With the continued speculation in the real estate market, Japan's economy fell into a false boom. This led to a dramatic expansion of the domestic bubble in Japan, which eventually caused a prolonged stagnation of the Japanese economy due to the bursting of the real estate bubble.

3. Consequences of Crisis

First off, there was a financial crisis that coincided with the recession. Financial institutions had a sharp decrease in profits following the market crash as the value of the collateralized real estate, stock prices, and non-performing loans all fell. The bankruptcy of securities and banks is a symbol of just how big the damage was. As a further measure to control excessive lending, the Bank for International Settlements (BIS) enacted capital adequacy standards in the early 1990s. As a result of both events, banks stopped making loans, forcing borrowers to make withdrawals that led to the destruction of legitimate enterprises [3].

The "three excesses" that companies faced were excess debt, excess employment, and excess equipment. These excesses indicate that Japan's business strategy has run out of options. Prior to the bubble's deflation, Japanese businesses had placed more of an emphasis on retaining employment, diversifying their business, and expanding their customer base than on increasing their profits. The boom economy of the late 1980s intensified the inefficiencies of this economic model, making modification ultimately unavoidable. Then, companies spent more than ten years correcting their balance sheets that were too leveraged. Also, they experienced deflation, which boosted interest rates and increased the real debt risk for businesses [4].

In addition, unemployment has been rising and has been at a high level for a long time. Younger workers and those with less education have been the ones who have been most impacted by this. Young Japanese men's unemployment increased from less than 5% in the late 1980s to about 12% in 2003, according to data from the World Bank. Many Japanese men in their 50s are unsure of what to do because they are used to working long hours and not being at home as a result of the surge in unemployment brought on by the financial crisis in Japan. A lot of interaction between Japanese wives and their husbands is something that they are not accustomed to. Due to this, divorce rates have increased. The rising divorce rate affects many kinds of relationships, not just long-term unions. Even while the effects on younger couples can vary, they are nonetheless

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impacted. As an illustration, the number of single-parent families has increased. Child poverty has increased as a result of this and the high unemployment rate among single mothers. Child poverty in Japan increased from 12.5% in 1995 to 16.5% in 2012.

Consumer prices have been falling gradually at an average pace of 0.2%, while the government's debt to GDP ratio increased from 152.3% in 2002 to 167.1% in 2007 [5].

The economic crisis that year had an impact on Japan for ten years, and it is still having an impact on the country now. According to the currency wars, the depreciation of the Japanese yen has a significant impact on the country's import and export trade. And Japan's economy was heavily dependent on import and export trade in 1990. Hence, the 1990 economic crisis almost completely turned Japan's survival strategy on its head. After 1990, Japan continued to be a significant exporter.

4. Government Policies Related to the Crisis

4.1. Interest Rate Adjustments of the Bank of Japan

The Bank of Japan has been undisciplined in its adjustments to monetary policy. When the BOJ realized that the currency must grow steadily, their decision was to apply the brakes immediately rather than make a step-down adjustment, which led to the bursting of the stock and real estate bubbles.

4.2. Increasing the Money Supply

Another way to break the liquidity trap is to "reflate" the economy by increasing the real money supply rather than targeting nominal interest rates. The Japanese government is trying to restructure the economy by increasing the supply of money to boost people's desire to spend.

4.3. Direct Funding to Consumers Through Reducing Tax Rates, Tax Rebates and Public Spending

Spending all the money on public works projects to promote people's welfare and efficiency at work. As well, intervene to help some companies get out of the crisis and better provide effective products to help people increase their desire to consume. This will bring Japan back to a stage of economic prosperity.

4.4. Cutting Interest Rates to Zero of Bank of Japan for the First Time

The zero-interest rate policy was a precedent for aggressive monetary policy in the US and Europe during the financial crisis years later. The regulation was adopted to fight deflation and promote economic recovery. The objective was to stimulate economic activity by encouraging businesses and individuals to borrow at a low cost and have greater access to cheap credit. Banks in turn lend to worthy companies who in turn invest, leading to an increase in the money supply leading to inflation [6].

5. Lessons We Can Learn from Crisis

5.1. Swift Action is Needed to Contain the Crisis

The Bank of Japan's hesitation to take swift action out of concern for inciting a crisis of market confidence may have started and even exacerbated its issues.

The only option is not to spend. Japan has not been particularly effective in recovering from its economic problems more swiftly despite spending on businesses and public works projects. diverse demographics. Japan's refusal to drastically raise taxes or the retirement age will only exacerbate the country's demographic issues. The world's worst ageing issue is in Japan. Moreover, ageing is a challenge that lowers productivity and has significantly raised the divorce rate [2]. Aging is a problem that affects productivity, and it has greatly increased the divorce rate [2].

5.2. Don't Rack up Debt

Japan's massive debt ultimately led to its crisis and lost decade, and the Bank of Japan was behind the curve in raising interest rates.

Don't rely on the financial system forever to maintain a sane economic environment for the country. The prosperity shown by the financial system may be false and it's not bringing real income to the people. The best time for the financial system to intervene is only when the real economy reaches a rapid and stable development.

5.3. The Impact of Currency

It is as if China is now facing the same real estate bubble as Japan was in 1990. Even China is facing a COVID-19 epidemic in 2019, which will be a huge blow to the Chinese economy. But China still must keep the real economy up first. Money has always been the economic backbone of a country. When a currency is devalued or appreciated, it can have a negative impact.

5.4. The Importance of the Consumer

When a country has an economic crisis, consumers and businesses become distrustful of investment in their home market, and people are no longer willing to spend, leading to an economic slowdown. This problem is further exacerbated by BOJ intervention in the market. Maintain stable monetary base growth; avoid targeting nominal or market interest rates, especially if inflation falls or is negative; and do not allow deflation (falling price levels) to take over. The problems caused by the high volatility exhibited by monetary base growth in Japan in the 1980s and 1990s clearly illustrate the need to maintain stable growth of the monetary base.

5.5. The Impact of Labour

By the end of 1989, the annual growth rate of the monetary base had risen from 6% in 1987 to over 12% thanks to the Bank of Japan. Since then, the Bank's personnel and leadership have been inspired by the knowledge that the late 1980s Japanese stock market bubble was caused by an increase in rapidly expanding monetary growth [7]. Although optimism about Japan's economic future was comparable to that of the US a decade later, particularly in late 1998 and 1999. Changes in the amount and calibre of labour and capital stocks were the cause of economic growth. Yet, Japan's changing demographics and rise in part-time employment have decreased both the quality and size of the country's labour force, as As has the nation's cautious approach to capital stock investments. Although the slow increase of the capital stock and the shrinking labour population must be offset by productivity growth, this hope appears to be dashed by the corporate sector's apparent intrinsic conservatism in regard to physical and human investment [8].

6. Conclusion

When any country encounters an economic crisis, it should learn the lessons of the Japanese government during the 1990s. When faced with a crisis, problems should be identified and solved quickly, promptly, and precisely. The appreciation or depreciation of a country's currency must be controlled by the central bank of that country. It is not the case that other countries can force the value of their currencies by agreement or by any other means. An excessive appreciation or depreciation of a currency can be a serious problem for the country's import and export trade. In the context of globalization, import and export trade is of particular importance. The fact that people no longer invest or spend money can seriously affect the profits of most companies. Indirectly, the country's economy shrinks. And, when people spend most of their money on savings, this is a sign of a loss of confidence in the local market. When too much capital enters real estate and people's perception changes from "houses are for living" to "houses are for making money", this is a precursor to a real estate bubble. It is like the US subprime crisis in 2008. At that time, all institutions were bullish on the US real estate market and invested heavily in it. As a result, the demand for houses in the US went from being greater than the supply to being less than the supply. And, by selling bonds, the financial institutions helped people who did not have the financial means to be able to buy houses, which eventually led to a massive break in mortgage payments. China is now facing this problem, and in most Chinese cities, the occupancy rate is much lower than the home purchase rate. It can even be the case that a building is empty, but every single suite in it is owned. The approach that the Chinese government has taken is to raise the interest rate on loans through the banks for people who already own a home and want to buy a second home. Recently, they have cut interest rates to boost the real estate sector and the economy more broadly, as well as a policy of restricting purchases in most cities. This policy has been effective and has helped to control the excessive rise in house prices. The future direction of the study will be to compare the data based on the findings of this article with those of other countries to produce a more detailed and illustrative report. The study will analyse whether the policies adopted by the Japanese government in the face of the economic crisis have been beneficial in terms of harm reduction.

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