

## Richard McCreery's Business Blog

### Monaco's Japan exhibition is a timely reminder



**Richard McCreery's Business Editorial** RLTV 26 Jul 10

Riviera based Independent Investment Adviser, Richard McCreery, has joined the expanding *RivieraLife.tv* team as Business Editor. Richard publishes a weekly Financial Editorial every Friday with informed comment on topical financial matters relevant to residents and businesses on the Cote d'Azur.

From the 14<sup>th</sup> July to the 12<sup>th</sup> September you can visit a "Japanese summer in Monaco." The Grimaldi Forum is putting on a series of events to coincide with its exhibition "Kyoto-Tokyo: from Samurais to manga" and using the neighbouring Japanese gardens they'll be putting on bonsai initiation classes and demonstrations of Japanese calligraphy and martial arts.

The exhibition and events provide a taste of Japan and this might be no coincidence. The recent global financial crisis has often been compared to the crisis that Japan experienced at the beginning of the 1990s which later became known as "the Lost Decade" and there are plenty of signs that Europe and the US risk falling into the same trap.

During the 1980s Japan was a global economic powerhouse and its vitality was reflected in a roaring stock market and a massive property market boom much as Western countries have experienced in recent years. Also, much like China of today, Japan was seen as the clear leader of the world's economic future, to the extent that people wanted their children to learn Japanese instead of French because they were convinced it was due to become the language of business. However, what seemed like a certainty turned into a catastrophe.

In 1989 the Japanese stock market peaked at 38,916 points after having quadrupled in just 5 years, followed two years later by a property market that, at its peak, valued the land under the Imperial Palace as being worth more than the entire state of California. When the boom imploded it came down with a crash and the stock market, now trading around 9400 points, never recovered. Neither did the property market where prices fell for 14 years in a row.

The Japanese handling of the crisis has been criticised by many Western economists ever since but there are some startling similarities with Japan of the 90s and Europe and the US of today. Massive bubbles in the stock market were followed a few years later by the peaking of property market bubbles. Interest rates were lowered to virtually zero and the country tipped into a deflationary cycle which was characterised by falling prices and delayed expenditure in the hope that goods would be cheaper in the future. Economic growth in the 90s in Japan was also held back by a zombie banking system containing bad loans and which was unable to expand lending. It never managed to reboot the credit cycle properly and struggled to lend to households that had no desire to borrow more and who preferred to save. The Japanese government tried to spend its way out of the problem and created numerous infrastructure projects to inject money into the economy, many of which were superfluous and which often became known as 'road to nowhere' projects.

Today in Europe and the US we have interest rates close to zero, the car industry has been saved by giving free money to car buyers, we have a banking system that is struggling to lend money whilst simultaneously strengthening balance sheets, we have falling property prices in many countries which would fall even further if they weren't propped up and stock markets that are trading at lower levels than a decade ago. Households in many countries are still carrying historically high levels of debt, sustained by extremely low interest rates, and they are unlikely to embark on a new cycle of borrowing and spending of any significance for the foreseeable future. Plenty of the characteristics of Japan during its lost decade and the western economies of today may not be identical but the similarities are certainly striking.

Therefore, I believe it is very timely to look at Japanese history to see what we can learn about our own possible future. The Kyoto-Tokyo exhibition highlights the unique nature of Japanese culture and society but it is also a reminder that the financial mess we are living through today is not new. Others have been through a very similar experience and we can see that lessons which should have been learnt, haven't been. One can only conclude that it's a lot harder to handle a complicated financial problem than it first appears and in spite of the criticism of western central bankers they don't seem to have come up with any new solutions.

**Richard McCreery 26th July 2010** Send us your comments for publication email: [richard@rivieralife.tv](mailto:richard@rivieralife.tv)