Lecture: Contemporary Economic History of Japan

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4-2 1965 Recession

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1 Consumption Boom and Mutual Fund Boom

- Japanese economy, having attained the high growth under aggressive economic policies represented by the income-doubling plan, is considered to have faced a turning point in the middle of the 1960s.
- That was symbolized by a large-scale bankruptcy in securities industry uncovered in 1965. Yamaichi Securities Co., a leading securities firm improving its business performance amid a private investors’ stock investment fever, was faced with crises of the bankruptcy, which was belatedly maneuvered around with bail-out measures by the government. An ailing management of this securities company reflected a rapid business slowdown, or a depression, in the vicinity of this time period, albeit temporarily.

- Up until ’65 to face the recession, amid the continued high growth as in “Jinmu Boom” and “Iwato Boom”, such consumer durables as electric appliances and automobiles came into wide use, and the lives of citizens seemed to have leeway at last getting up closer to affluence.
- Symbolic of the changes in this time were the a fast development of the energy revolution and a sophistication of the industrial structure.
- The changeover to the low-cost imported energy necessitated its linkage to an export expansion which became possible through an international competitiveness to be improved with the lower cost energy.
- The development of the heavy industries such as steel and shipbuilding took on that role.

- Meanwhile the stock prices went up reflecting favorable corporate performances, and, stimulated by the animated situation of the stock market, people’s interest centered on investments to stocks and further to mutual funds newly launched.
- For the occasion of the release of public-bond investment trust of ’61, a catchphrase read, “Goodbye to banks; Hello to securities firms.” This bond investment trust had explosive sales accumulating funds of 46 billion yen in the first month after its launch.
- Total amount of funds sunk into mutual funds, from the year-end balance of approximately 60 billion yen in 1955 time, increased tenfold exceeding 600 billion yen in ’60, and reached about 1.2 trillion yen in ’61 when public-bond investment trust got on sale. In this way, funds of consumers having an elbowroom for life were mobilized into the markets of stocks and bonds, and started fulfilling demands for funds by corporations that proactively developed capital investments.

- In hindsight, a dependence on direct finance climbed in this period, but which returned to indirect financing again in ’65.
- In the face of a favorable mutual fund boom, a skepticism about the sustainability of growth emerged regarding the real world of the economy, thus transpiring a “controversy over a pattern shifting period” (either to sustain the high growth or to convert to a stable growth).
- In actuality, an economic growth was not necessarily sustained favorably during “the first half of the age of the income-doubling plan”

2 Stock Depression

- In this way, the stock boom that appeared favorable became increasingly volatile starting around ’62 and weighed on running of securities companies.
- Even so, majority of securities companies gathered up customers with hard-hitting business policies, and developed sales activities to collect money as the “investment deposit.” But in the fall of ’64, securities-business performances deteriorated so much that three out of the major securities firms had to settle their accounts in the red.
- Just around the same time, reflecting a micro depression, the collapse of companies increased in the industrial sector: Sun Wave and Nihon Special Steel in Dec. ’64, and Sanyo Special Steel in Mar. ’65. These escalated to major bankruptcies, and the “structural depression” theory appeared on the scene.

- In the wake of those turbulences of business world, Yamaichi Securities collapsed in May ’65, which triggered the stock depression. From the time the deficit account settlement was announced in ’64 fall, it was sort of known to the industry participants and Ministry of Finance, the jurisdictional authority, that managerial conditions of major securities firms were ailing.
- In Oct. ’64, as part of measures for economic circles and securities market, in order to embark on rebuilding management of individual securities company, Yamaichi’s main banks, which were Industrial Bank of Japan, Fuji Bank, and Mitsubishi Bank, commenced studies on the revival plan for this firm in first.
- In the meantime, by establishing Japan Joint Securities Co., the government strived to buy out stocks from slumping markets and recover their prices. At the same time the government was prepared to revise Securities Exchange Law in order to strengthen its control over the securities industry by altering the industry’s requirement from the registration system to the licensing system.

- It was around the end of Dec. this year that the real situation of' the managerial aggravation of Yamaichi Securities was uncovered: The actual amount of loss was much severer than the published deficit of 3.4 billion yen. Startled with seriousness of the matter, the banks in Jan. 1965 asked Ministry of Finance for the governmental relief on Yamaichi's business rehabilitation. Yamaichi made its business reconstruction plan and requested to the ministry and Bank of Japan for their cooperation.
  - **→BOJ's stance was that it could take no special measure for an individual company that failed.**
  - **Ministry of Finance adopted the principle to avert a situation where Yamaichi's managerial collapse would lead to a stock panic and, then, to a financial crisis**.
- Accordingly, a careful examination on Yamaichi's managing status and a study on what countermeasure to take were carried out among restricted people in absolute secrecy. Additionally, the ministry requested the influential mass media, having laid out the status quo of Yamaichi straightforward, to exercise their self-control so as to prevent turmoil. The request was also made to Socialist Party not to pursue this issue at the Diet.

- But the drama didn’t develop in accordance with this scenario.
- The deficit amount that turned up in the settlement of the accounts at March-end, albeit publicized as 8.4 billion yen, proved to be 28.2 billion yen, a vast sum far exceeding prefigurations. This deficit was 3.5 times as large as Yamaichi’s capital fund, and inasmuch as a reconstruction plan was not finalized due to conflicts of interest among the three banks, the review time for the rehabilitation plan dawdled away.
- Taking some notice on such a move, a local newspaper which did not participated in the voluntary restraint agreement on publicity made a news report on Nishinippon Shimbun on May 21, 3 days ahead of the cutoff date of the restraint agreement: “Yamaichi Securities to outride its financial woes; Shortly announcing revitalization plan; Socialist Party ready to pursue at Diet?” Thus, the top-secret operation centered on Ministry of Finance collapsed.

- Yamaichi Securities to Outride its Financial Woes
- Shortly announcing revitalization plan
- Socialist Party ready to pursue at Diet?"
- **Yamaichi Securities Co. (capitalized at 8 billion yen, president Teru Hidaka) had been working on a fundamental reconstruction measure to ride out the financial adversity by obtaining the cooperation of its principal 3 bankers (Fuji, Mitsubishi, Industrial), and just recently finalized its management reform measures focusing on ①an internal rationalization including cutbacks in branch offices and personnel, and ②a constriction of interest burden. In view of an influence to the industry insiders, the firm had adamantly avoided to surface its financial woes, but as Socialist Party showed a movement to pursue this issue at the Diet, Yamaichi is scheduled to announce its revitalization plan before long. It is unprecedented that a large securities firm entrusted with a mission to raise industrial capital faces this sort of business struggle. However, the government and Bank of Japan take the stance to back up the firm's reconstruction as part of turnaround measures for the securities industry, expressing, "because these are forward-looking countermeasures to exert no actual damage to the affiliated companies and investing public, there is no danger of inviting any chain-reaction bankruptcy and social unrest."**

- The government gave an account of its full preparation by releasing a statement of Finance Minister Kakuei Tanaka: “not to cause investors inconvenience”; and “in certain instances, Bank of Japan would give a special consideration in finance.”

Kakuei Tanaka

（from Wikipedia）

- But on Sunday, 22, the day following the scoop press story, investors in quest of cancellation of agreements stormed their way into some 90 branch offices of Yamaichi, and spate of engagement cancellation took place.
- In the subsequent week, stock prices under the influence began to go down, and customer visits surpassed 10,000 daily, and exceeded 20,000 on 29th: during this week, Yamaichi was forced into the cancellation in the amount of 17.7 billion yen.
- It is said that, on the early afternoon of 28th, a grievous phone call from Yamaichi's managing director responsible for accounting reached Finance Ministry to say, "No banks or credit associations would lend us even one million yen any longer." In an effort to comply cancellations, Yamaichi desperately scraped together a sum of money. State of affairs unfolded in such cases as police officers turning out to organize customers at its Hiroshima branch, and the office glass seals being broken by the lapidation at Kobe branch. Customer movements run away with this kind of restless mentality spread to other companies, and, ingenerated the stock depression.

Economic Indicators Before/After Stock Depression

	Company Bankruptcy		Stock Market		Mutual Fund Outstanding Balance	Profit Ratio of Total Capital	
	No. of Cases	Total Debts	Dow Index	Yield Rate		Medium & Small Com-panies	Big Com-panies
	Cases	100 Million Yen		%	100 Million Yen	%	%
1960	1,172	652	1,117	3.93	6,042	6.6	6.3
1961	1,102	804	1,549	3.24	11,828	7.5	5.4
1962	1,779	1,840	1,419	3.86	12,633	5.8	4.2
1963	1,738	1,695	1,441	4.24	13,419	4.1	3.9
1964	4,212	4,631	1,263	5.69	13,706	3.9	3.5
1965	6,141	5,624	1,203	5.92	11,859	3.7	3.0
1966	6,187	3,988	1,479	4.44	10,328	3.8	3.8
1967	8,192	4,854	1,412	4.74	9,457	4.4	4.3
1968	10,776	7,975	1,545	4.26	8,880	4.6	4.3
1969	8,523	5,485	1,956	3.30	10,493	5.5	4.6
1970	9,765	7,292	2,193	3.37	13,678	5.1	4.2
1971	9,206	7,126	2,386	3.37	16,185	4.2	3.0

3 Practice of Special Loan by Bank of Japan

- On the evening of May 28 at BOJ's Hikawa dormitory located in Akasaka, Tokyo, an urgent meeting was convened among Finance Minister Kakuei Tanaka, Finance Ministry's top officials, Bank of Japan vice president Tadashi Sasaki, and the presidents of Fuji, Mitsubishi and Industrial Banks.

- BOJapan maintained its concern about reaching out to the bail-out of a specific corporation that would lead to uncontolled relief works, and brought the three banks' responsibilities into question, hence being extremely reluctant to put up its money. "We don't want to leave a bad precedent."

- Finance Minister Tanaka, having judged that there was no other way but to relieve Yamaichi by putting up money from BOJ, proposed a relief plan to dissolve Yamaichi's fund shortage and look to its business rehabilitation by facilitating a special loan, basing himself on a close in the article 25 of BOJ Law: "Bank of Japan, with an authorization of the state minister in charge, is able to execute its duties necessary to maintain and develop credit establishments."
- →The amount of loan agreed upon by the minister's decision was 24 billion yen, whereas at the announcement to mass media it was explained that BOJ would lend fund without limitation. ←As per the minister's direction. In other words, Tanaka strived to leverage mass media in order to orient this run on Yamaichi, which started with the same media's coverage, to soothing.
- Information mediums including newspaper, not anticipating such a bold countermeasure to allow an unlimited accommodation, gave a lot of coverage on this decision, which finally turned around the run on Yamaichi to calming down.

- Subsequently in the government, to cope with the depression that peaked with Yamaichi Securities' business crash, Takeo Fukuda who assumed Minister of Finance in July made an announcement that the government would take proactive measures to stimulate the economy by issuing deficit-covering bonds.
- For the sake of the economic recovery, the government decided to cast aside the balanced-finance policy which had been kept since the realization of Dodge Line of 1949, and to contravene the no-loan principle stipulated in the article 4 of the public finance law; thus implementing business stimulating measures on the fiscal front by the issuance of deficit bonds.
- In the wake of this development, the stock market belatedly swung over to a recovery, and Japanese economy was to evolve toward a business prosperity, "Izanagi Boom", which continued for a longer period than Iwato Boom, resuming another high growth.

- These recoveries in business climate and stock prices served as a tail wind for Yamaichi striving to reconstruct itself, and four years later the firm paid back completely the special loan of this occasion, and advanced back to one of the four major securities companies again.
- In the meantime, Finance Ministry’s securities administration since then became strongly control-oriented, and changed to the “convoy system” of the same sort as the banking industry.
- But an experience of the antidepression policy on the fiscal front became a remote cause to invite an accumulation of deficit bonds, as it constituted a precedent for a voice to tone up asking for anticyclic measures with the issuance of deficit bonds as a antirecession policy every time business declined since then.
- Seen in that light, the stock depression, with respect to the deficit bonds issued for business recovery and also the overprotective financial administration by Finance Ministry, was something to turn a blind eye to future troubles.