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MARKET MAYHEM · RESEARCH SHEET · EPISODE 10

The Sun Also Falls

Japan's Lost Decades and the Bubble That Took 34 Years to Recover

Japan · 1989 · v1.0 · July 2026

At the end of 1989, the Nikkei touched almost 39,000 and the land under Tokyo's Imperial Palace was said to be worth more than all of California. Japan was about to overtake the world. Instead it entered three decades of stagnation, and did not see that Nikkei high again until 2024.

Key Facts

Event	The bursting of Japan's asset-price bubble and the “Lost Decades”
Location	Japan — the Nikkei stock index and Tokyo real estate
The Peak	29 December 1989 — the Nikkei closes near 38,900, an all-time high
The Cause	The 1985 Plaza Accord, a soaring yen, and years of ultra-loose Bank of Japan policy
The Trigger	The Bank of Japan sharply raised rates in 1989–90 to deflate the bubble
The Legacy	Deflation, “zombie” banks and a balance-sheet recession studied ever since

By the Numbers

The Nikkei peaked near 38,900 on 29 December 1989

It took until February 2024, about 34 years, to regain that high

At the peak, Tokyo real estate values implied land worth multiples of far larger countries

From the peak the Nikkei eventually fell roughly 80% to its later lows

Japanese equities briefly approached half of total world stock-market value

The Land Under the Palace

At the height of the bubble, the notional value of the land beneath Tokyo's Imperial Palace was said to exceed the value of all the real estate in California. Japanese property, on paper, was worth several times all the land in the United States. It was the clearest possible signal that price had detached entirely from any underlying reality, and almost nobody wanted to hear it.

> ***“ “This time our country is different” is the most expensive sentence a whole nation can believe at once. ”***

How It Happened

The 1985 Plaza Accord drove the yen sharply higher, threatening Japanese exporters. The Bank of Japan responded by slashing interest rates and flooding the economy with cheap money to cushion the blow.

That liquidity poured into assets. Stock and land prices spiralled upward in a self-reinforcing loop: companies borrowed against soaring shares to buy soaring property, banks lent freely against ever-rising collateral, and a national conviction took hold that Japanese asset prices simply did not fall.

Valuations lost all mooring. The Nikkei's price-to-earnings ratios reached extraordinary levels, and Japan's equity market swelled toward half of the entire world's.

The Collapse

Alarmed, the Bank of Japan reversed course and raised rates sharply in 1989 and 1990. The cheap money that had inflated everything was withdrawn, and the loop ran backwards.

The Nikkei began a long grinding decline from its December 1989 peak. Land prices followed. The collateral behind the banking system evaporated, leaving lenders saddled with bad loans and unwilling or unable to lend.

Rather than a single dramatic crash, Japan suffered a slow, decades-long deflation, the "Lost Decades", of stagnant growth and falling prices. The 1989 high was not recovered until 2024.

Timeline

1985	The Plaza Accord drives the yen sharply higher
Late 1980s	The Bank of Japan keeps money cheap; stocks and land spiral upward
29 Dec 1989	The Nikkei peaks near 38,900
1990	The Bank of Japan raises rates sharply; the bubble begins to burst
1990s–2000s	The "Lost Decades" — deflation, bad-loan-laden banks, stagnation
Feb 2024	The Nikkei finally regains its 1989 high, about 34 years later

Mind · Method · Money — What This Means for You

MONEY · Cheap money inflates asset bubbles far beyond the real economy
Years of near-free credit poured into stocks and land, not productivity. When the price of an asset is driven by the availability of cheap money rather than its earnings, you are measuring liquidity, not value, and liquidity can be taken away.

METHOD · When valuations detach from any anchor, the anchor eventually wins
The land under a palace cannot really be worth more than a US state. Extreme valuation is not a reason to buy the momentum; it is the measure of how far the fall can be. Always ask what earnings or rent could ever justify the price.

MIND · National euphoria is the hardest bubble to see from inside
By 1989 an entire country believed Japan had rewritten the rules. Collective certainty at that scale makes caution feel unpatriotic. The more universal the belief that prices only rise, the closer you are to the top.

Modern Parallels

Japan is the cautionary tale for every debt-fuelled asset boom: the belief that a country, a sector or a technology has permanently escaped the old rules, financed by cheap credit and validated by rising prices, until the central bank that inflated it decides to stop. The recovery took a generation.

Read & Listen

Read the full write-up and listen to the episode: Japan's Lost Decades (EP10)

Related Research

Previous episode: EP09 · Black Monday (1987)
Next episode: EP11 · The Mexican Peso Crisis (1994)
The next one forming: The Next Market Crash — 5 Scenarios

Sources & Further Reading

Richard C. Koo, The Holy Grail of Macroeconomics: Lessons from Japan's Great Recession (2008)
Charles P. Kindleberger, Manias, Panics, and Crashes: A History of Financial Crises
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