Through this exercise, we can point to several points of similarity between the US mortgage boom that led up to the crisis of 2007/2008 and the 1980s bubble in Japan. In particular, the following parallels are striking:

- In both cases, new securities increased the supply of overall credit to the economy through the tapping of new credit sources. In the US mortgage crisis, the new securities were mortgage-backed securities issued by the US government sponsored enterprises (GSEs), as well as by the private-label mortgage pools that contained subprime mortgages. In the 1980s bubble in Japan, the new securities were corporate bonds, warrants and CP issued by Japanese non-financial companies.
- In both cases, non-leveraged purchasers of the new securities were important new funding sources. In the US mortgage crisis, foreigners (especially foreign central banks) bought the mortgage-backed securities (MBSs) of the US GSEs. In the 1980s bubble in Japan, non-leveraged institutions such as life insurance companies and foreign investors were the buyers of Japanese corporate securities.[2]
- In both cases, the expansion of credit provided by the commercial banking sector received impetus from the integration of the commercial banking sector with the capital markets. In the US mortgage crisis, although it did not become obvious until the end of the financial boom, the balance sheet expansion of commercial banks occurred in tandem with market-based credit and the associated expansion of the balance sheets of investment banks. In the 1980s bubble, the balance sheet expansion of commercial banks was closely related to that of large non-financial firms that raised funds by tapping capital markets.

However, there are also important differences between the US mortgage boom and bust and the 1980s bubble in Japan:

- In the US mortgage crisis, the borrowers were households, while in the 1980s bubble in Japan, the borrowers were companies.
- In the US mortgage crisis, the new securities were primarily debt securities that enabled the financial system as a whole to become more leveraged. In the 1980s bubble in Japan, the credit boom coincided with a boom in the stock market so that a large proportion of the securities were equity issues and the leverage of the banking sector actually declined.

The importance of securities funding and the role of market-based financial instruments points to the importance of monetary policy in determining the overall tenor of financial market conditions and the credit spreads that sharpen the incentives of market players. This is because the incentives that govern funding and lending are ultimately driven by

[2] In the Flow of Funds Accounts Statistics, the prime holders of securities issued by non-financial firms in the late 1980s were foreigners categorized as “Overseas”. However, we should be careful in interpreting statistics for “Overseas” because the amounts held by foreign subsidiaries of Japanese firms are also included in this category.