

Japan's Steady Growth

Steady Economic Growth

- Japan's real GNP average growth: 9.7% (4.0% in the US) b/w 1955 – 1973
c.f. China: 9.3% b/w 1990 and 2002
- B/w 1961 – 1973: Japan's GDP per capita grew at 8.52% (Australia: 2.9%, Korea: 5.8%, US: 2.8%, China 8.1% between 1990 and 2002)
- The average unemployment rate b/w 1955 and 1973 is 1.5% (5.0% in the US)

Characteristics of Japan's Growth

- Strong government initiative
 - Continuity from the war period
- Strong sense of self-reliance
 - Strong sense of inferiority complex and xenophobia(?)
- Prevalent view of "export-led growth"
- No allergic reaction to socialism/communism
- Strong sense of egalitarianism
 - As a result of pre-war laissez faire policy
 - Structural change model

Why Japan experienced high growth?

1. War destruction
2. 5-year planning (?)
3. Stable macroeconomic management
4. Emphasis on exports (?), weak yen
5. Tech. Transfer
6. High saving
7. Cooperation b/w bureaucrats (technocrats) and the private sector (?)
8. Alliance with the U.S. and its geopolitically important location

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Table 3.7
Five-year economic plans in Japan

Nickname	Cabinet decision date Name of prime minister	Planning horizon and plan survival	Growth
			Planned Actual
Five-year Economic Independence Plan	December 23, 1953 Ito	FY 1954-1960	5.0
		FY 1961	6.1
		FY 1962	7.8
New Long-term Economic Plan	December 17, 1957 Kobayashi	FY 1958-1961	5.8
		FY 1962	6.0
		FY 1964	11.2
		FY 1965	12.5
Double-digit Income Plan	December 27, 1960 Nishida	FY 1961-1970, avg.	7.8
		FY 1961	9.0
		FY 1962	9.0
		FY 1963	9.0
		FY 1964	12.5
Multi-year Economic Plan	January 22, 1965 Satō	FY 1966-1980	8.1
		FY 1966	10.6
		FY 1969	9.7
		FY 1968	11.6
Economic and Social Development Plan	March 13, 1967 Satō	FY 1967-1971	8.3
		FY 1967	12.1
		FY 1968	12.8
		FY 1969	12.2
New Economic and Social Development Plan	May 1, 1973 Satō	FY 1973-1975	10.6
		FY 1976	10.2
		FY 1977	5.6
		FY 1978	10.4
Economic and Social Basic Plan	February 12, 1973 Tanaka	FY 1973-1977	9.4
		FY 1973	6.5
		FY 1974	-0.0
		FY 1975	2.2
Five-Year Plan of Shōwa 50s Economic Plan	Mar 14, 1976 Miki	FY 1976-1980	6.0+
		FY 1976	6.1
		FY 1977	6.2
		FY 1978	6.1

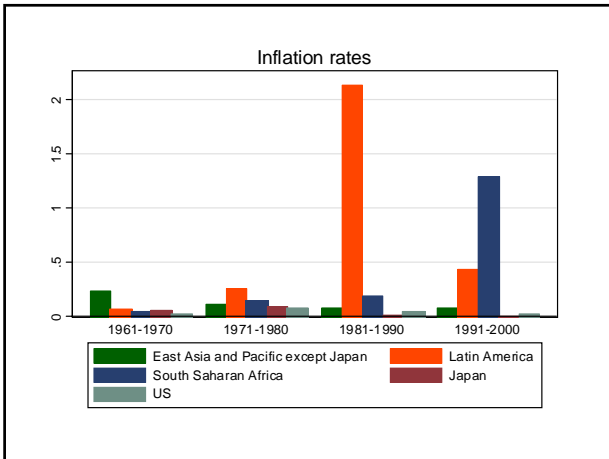
Table 3.7
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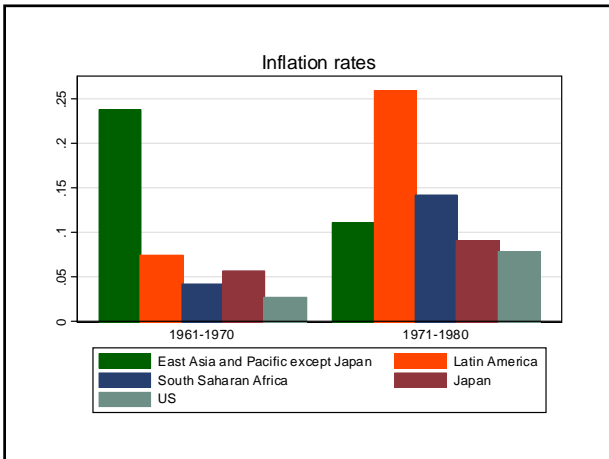
Nickname	Cabinet decision date Name of prime minister	Planning horizon and plan survival	Growth
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New Economic and Social 7-year Plan	August 10, 1979 Ōhira	FY 1979-1985 (midterm correction, 5.1)	5.7
		FY 1979	3.3
		FY 1980	4.6
		FY 1981	3.5
		FY 1982	3.3
Outlook and Guide for the Economy and Society in the 1980s	August 12, 1983 Nakasone	FY 1983-1990 about 4.0	3.7
		FY 1983	3.7
		FY 1984	5.1
		FY 1985	4.5
		FY 1986	2.7
		FY 1987	5.2
Japan Together with the World—Five-year Economic Plan	May 27, 1988 Takeuchi	FY 1988-1993	3.75
		FY 1988	4.9
		FY 1989	4.07
		FY 1990	—

a. This plan survived only two years and was replaced by the next plan.

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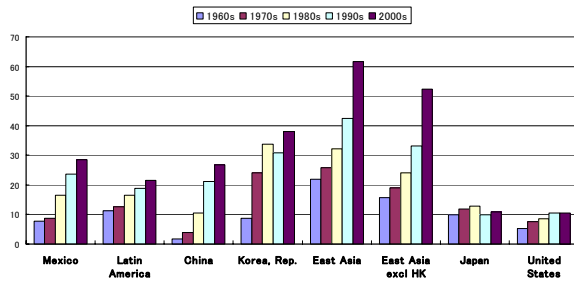


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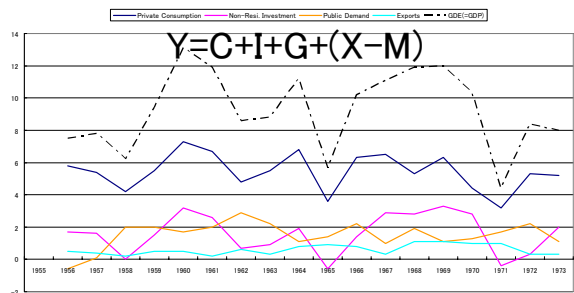
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Export-led?

Export as a ratio to GDP



$$Y = C + I + G + (X - M)$$



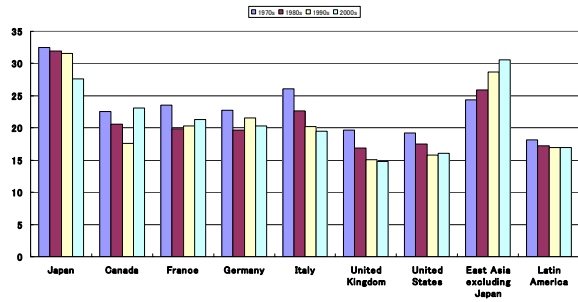
Correlation b/w Output (GDP) and

Consumption	Non-residential investment	Residential investment	Government spending	Exports
0.835	0.880	0.165	0.092	0.086

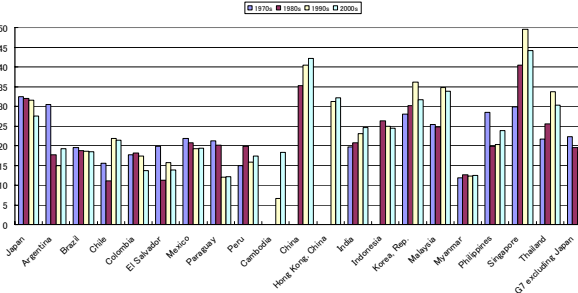
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Comparison of saving rates as % of GDP



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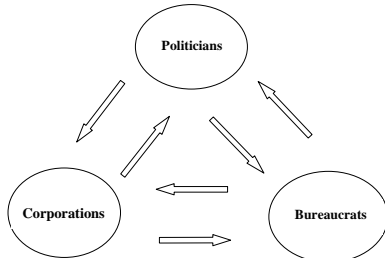


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The “Iron Triangle”

- Bureaucrats played an important role in policy making (like they did during the war).



Overview of Japan’s Industrial Policy

- It is rooted in the war-time economy.
- Two main players of industrial policy
 - Ministry of Finance (MOF)
 - Ministry of International Trade and Industry (MITI, Munitions Ministry during the war; now METI: Ministry of Economy, Trade, and Industry)
- Looked very effective. Impressed the ROW (esp. East Asia) with the “Japan model”

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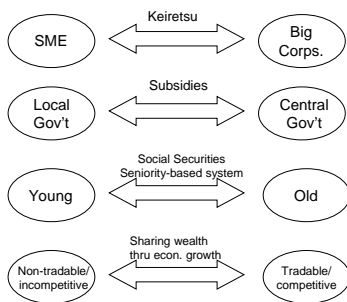
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I changed my mind. There is one more factor that may have contributed to Japan's high growth

9. Strong emphasis on egalitarianism

- Created social coherence
- Led to a rise in preference for social and political stability → strong motive for status quo

The “cross-subsidy” system



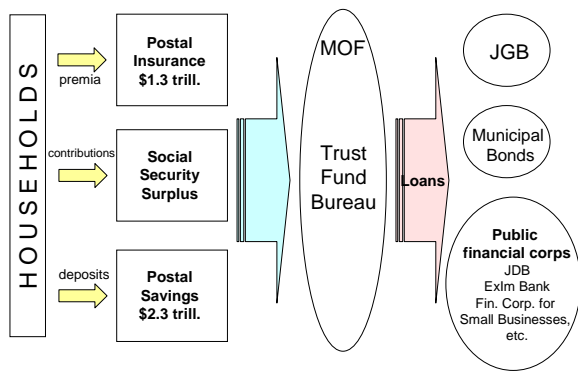
Industrial development

- Industrial development cycle
 - Textile, footwear, apparel
 - Machine tools, simple manufactured goods
 - Heavy industries such as steel, coal, petrochemical
 - More complicated manufactured goods such as automobile, consumer electronics, chemicals, etc.
 - High-tech hard goods such as semiconductors
 - High-tech soft goods such as computer software and game ware
- Higher value added = more capital intensive
- More labor intensive goods will be taken over by foreigners who can provide cheaper prices

Industrial Policy during the High Growth Era, 1952 – 73

1. The rationing of foreign exchange
 - MITI and MOF jointly controlled forex allocations
 - Outward controls disappeared after 1964, but inward controls remained until 1980
 - Both ministries expanded power through this policy
2. Fiscal Investment and Loan Program (FILP)
 - Used ample funds of postal savings and insurance
 - Funds allocation is under direct control of MOF
 - Through JDB and ExIm Bank, funds were invested mainly in electric power, marine shipping, coal mining, and iron and steel

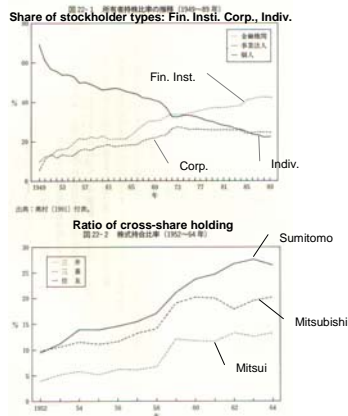
The FILP System



Industrial Policy during the High Growth Era, 1952 – 73

3. Preferential tax stipulations
 - Many tax exemptions were given to export industries during the 1950s and 60s
 - Depreciation was accelerated for “important” industries during the 1950s
 - Other tax exemptions were given to facilitate the procession of “rationalization”
4. Antitrust exemptions

Many companies in Japan weathered economic/business hardships by strengthening *keiretsu* relationships



Industrial Policy after 1975

- After the first oil shock in 1973, some of the “leading” or “strategically important” industries became “declining” industries
- Industrial policy in general became more reactive
- Industrial policy since then focused on
 - Dampening the effect of structural decline of industries ex. Coal and textile
 - Facilitating cross-firm R&D ex. VLSI
 - MITI became more occupied with trade negotiations with the US in 1970s and 80s

Was Japan’s industrial policy effective after all?

- Empirical evidence is not encouraging
- Government intervention meant market distortions
- May have had some signaling effects
- Inter-firm cooperation was initiated by Keiretsu groups, leaving not so much room for the gov’t
- Could’ve contributed to prolonging the life of declining industries

U.S.-Japan Economic Conflicts

- Japan's allegedly "anti-competitive" practices vs. Relative decline in U.S. industry
- Trade disputes
 - Textiles and apparel, footwear (1960s), TV, VCR, home electronics, steel, bearing, automobiles, motorcycles, glass (1970s), agricultural products (oranges, beef, etc.), semi-conductors, computers, supercomputers, telecom equipment (1980s), retailing, construction, banking, insurance (1990s)
- Trend: U.S. retaliation (up to 1989) → market opening (1990s)
