

Japan's Rapid "Recovery" and High Growth





Tokyo



Nagoya



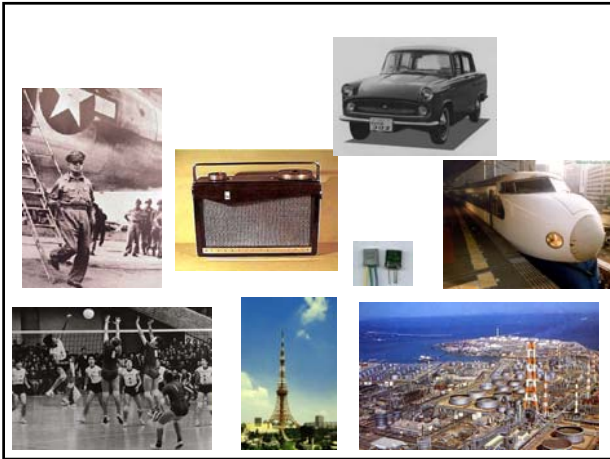
Yokohama



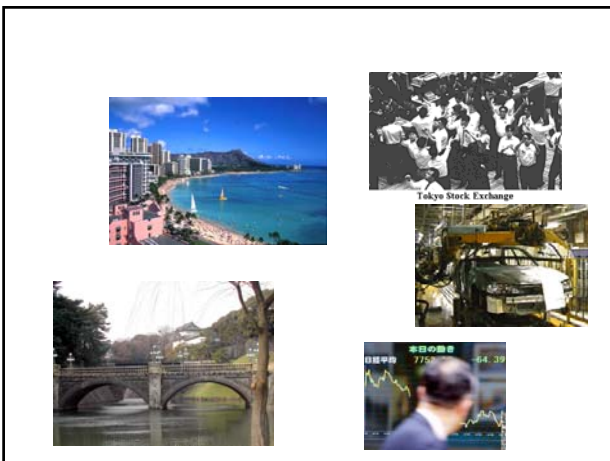
Osaka



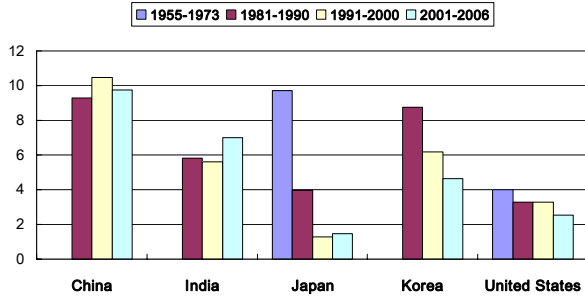
Nemuro (Hokkaido)



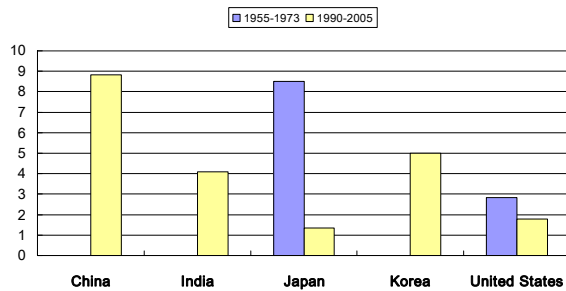




GDP growth rates



Growth Rates of GDP per capita



The Economy in Chaos

- WWII destroyed 25% of the country's total capital stock.
 - The country was repopulated as veterans returned home and started families.
 - The distribution and production systems were dysfunctional as well.
- Severe food shortage and inflation

Type of capital	Loss
Total capital stock	25%
Military planes and ships	100%
Commercial ships	81%
Industrial machines	34%
Urban housing	33%
Buildings and structure	25%
Telegraph, telephone, water supply	16%
Electricity and gas supply	11%
Railroad and other land transportation	10%

U.S. Occupation – Demilitarization and Democratization

- Economic Chaos in Japan, 1945 – 1949
 - Hyperinflation
 - Ballooning gov't debt (Failed ISI, IP, nat'lization)
 - Foot shortage/malnutrition
 - Workers' sabotage
- “Economic Democratization”
 - Land reform
 - Dissolution of the Zaibatsu
 - Encouragement of Labor Movement

Macroeconomy immediately after the war

Table 3.4

	GNP growth rate (%)	Inflation rate (%)	Monetary base growth rate (%)	Gov't budget growth rate (%)	Trade balance to GNP ratio (%)	Major events
1945	...	51.1	148.2	9.0	...	Surrender of Japan (Aug.)
1946	...	364.5	67.5	418.3	...	Financial asset freeze (Feb.), price control (March), Zaibatsu dissolution
1947	8.4	195.9	132.9	75.9	-6.2	General strikes banned (Feb.); breakup of monopolies, land reform, labor reform
1948	13.0	165.6	61.5	135.1	-3.8	
1949	2.2	63.3	0.3	56.0	-2.0	Dodge Plan National railway labor problem
1950	11.0	18.2	18.9	1.2	0.3	Korean War (Oct.)
1951	13.0	38.8	19.9	24.0	-1.9	End of Korean War
1952	11.0	2.0	13.8	16.8	-2.3	
1953	5.7	5.0	10.8	16.6	-4.5	
1954	6.1	6.5	-0.9	2.3	-2.2	

Source: Toyo Keizai, Economics Statistics Annual, 1979.
Note: Monetary base is sum of currency and coin.

The tidal change in the Occupation Policy

1945 – 1947

- MacArthur – “feudal Japan” needs to be converted
- Poverty and food shortage were still main issues in Japan. Labor unions were active.
- “Dollar gap” in Europe and Japan

1948 – **Reverse Course**: Japan (and the Occupation authorities) needs to focus on recovery → the Dodge delegation

1949 – Communist China

1950 – Ho Chi Minh's Vietnam, N. Korean invasion to S. Korea

The tidal change in the Occupation Policy

The United States wanted to

- Minimize US fiscal cost (i.e. military, econ. Aids)
- Use Japan as the wall against communism, the US needs to
 - Fix Japan's fiscal mess (the Dodge Plan)
 - Let East/Southeast Asian be the markets for Japan's exports and the suppliers of raw materials to Japan
 - Halt all the "socialistic" efforts of demobilizing Japan
- Use Japan as an example to Asians of the material awards from cooperating w/ the West.

Japan's restoration of sovereignty

- 1952 – peace treaty (except for China, Soviet Union, India)
- Japan – US security pact
- US (J. Dulles) wanted Japan to establish close trade relationship w/ SE Asia (SE Asia exports natural resource and imports Japanese manufacturing goods)
- However, SE Asia turned out to be an inappropriate trade partner (political instability, economic underdevelopment) → US becomes the major export market

Korean War (1951 – 53) and Japan

- US war procurement created large demand for Japanese products.
- Manufacturing and military-related industries, which had been idle after the war, reaped the benefit.
- US halted the policies to disperse economic concentration
 - Zaibatsu dissolution
 - Anti-monopoly law (created in 1947, revised in 1949, 1952)
- Korean War also coincided with Japanese companies' efforts to
 - "Rationalize" or downsize their production/management
 - Decrease wage levels
 - Establishment of corporate rather than trade unions
