

Rebuilding from the Ruins: Miracle of Postwar Japan's Economy

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Abstract. This article studies the economic success of Japan in the postwar period and explores it from the perspective of political economy. The economic success of Japan in the second half of the 20th century is visible. After World War II's end, Japan's economy was destroyed entirely, and the industrial system also collapsed. Tokyo was burned to the ground during the air attack, and Mount Fuji could be seen from anywhere in Tokyo. Still, as a defeated country, it chased after western developed nations with an astonishing speed and had remarkable success, making scholars wonder about why Japan's high-speed development. Since the idea that the economy is the foundation of national development has become common sense, scholars continually argue about the best method to develop the economy. In the second half of the 20th century, Neoliberalism flourished gradually and dominated the mainstream in the west. However, the "Miracle of Japan's economy" proved to the world that statism and the political economy also could bring remarkable success to socioeconomic development with great competitiveness. Therefore, studying the "Miracle of Postwar Japan's Economy" is vital because it provides a more comprehensive view for scholars and reveals the truth that the economy's success is multipath. In the article, the author focuses on two Japanese policies on the economy to explore their influence and result. The first policy is "Foreign Exchange and Foreign Trade Act", and the other is the "Inclined Production Mode". This article believes Japan's success in the postwar period resulted from political economy.

Keywords: Postwar Japan; Socioeconomic development; Political economy, Japan's Miracle.

1. Introduction

The war which Japanese militarists waged was a double-blade sword. It brought not only sufferings to other countries Japan invaded but also hurt Japan itself profoundly and finally turned its inland became a heap of rubble. The staggering number of casualties was just one of the severe consequences that the government of Japan had to face. Beyond that, the Japanese government also faced many critical challenges simultaneously, such as a high unemployment rate, a shortage of resources, and the basic but most important problem, which is how to rebuild domestic industry [1]. Japan once had a relatively stable and prosperous economy after the Meiji restoration before it drew the whole country into the quagmire of war. Still, after the war, when all fanatic ambitions had gone like an illusion, Japan had to find a way to survive and rebuild from the ruins. In fact, Japan achieved much more than survival.

The miracle is not an exaggerated word to describe Japan's success in the economy in the second half of the 20th century. In 1946, the industrial rate of Japan decreased to 27.6% of the pre-war level. Still, according to the data, the industry in Japan recovered in 1950, only four years after the end of World War II [2]. More importantly, the astonishing speed of Japanese socioeconomic development did not stop. Industrial production in Japan reached 350% in 1960 compared to the pre-war level [2]. Throughout the 1960s and 1970s, Japan entered a literal high-speed development period. In 1965, the GDP of Japan reached 90.95 billion dollars. Meanwhile, as an established developed country, the GDP of the United Kingdom was 101.82 billion dollars (Figure 1 and Figure 2). Though it is true that the data shows the audience there still was a distance between Japan and the western developed countries until 1965, the economic vitality of Japan was unignored.

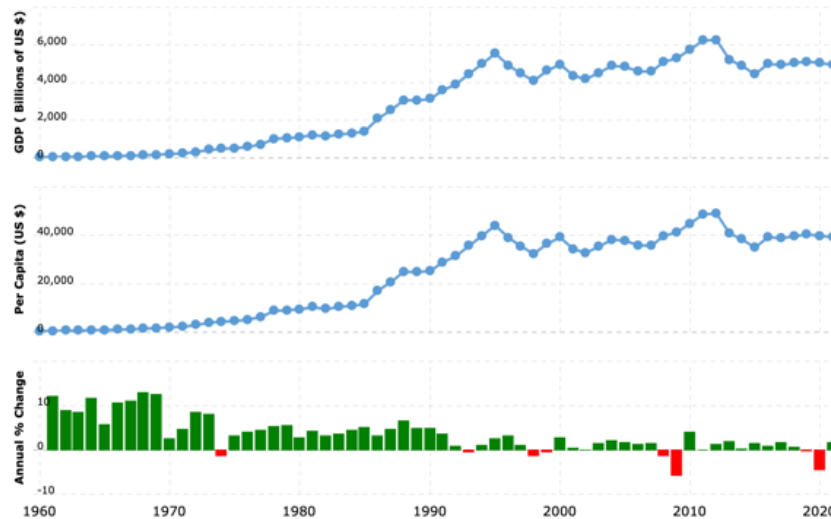


Fig. 1 The GDP of Japan [3]

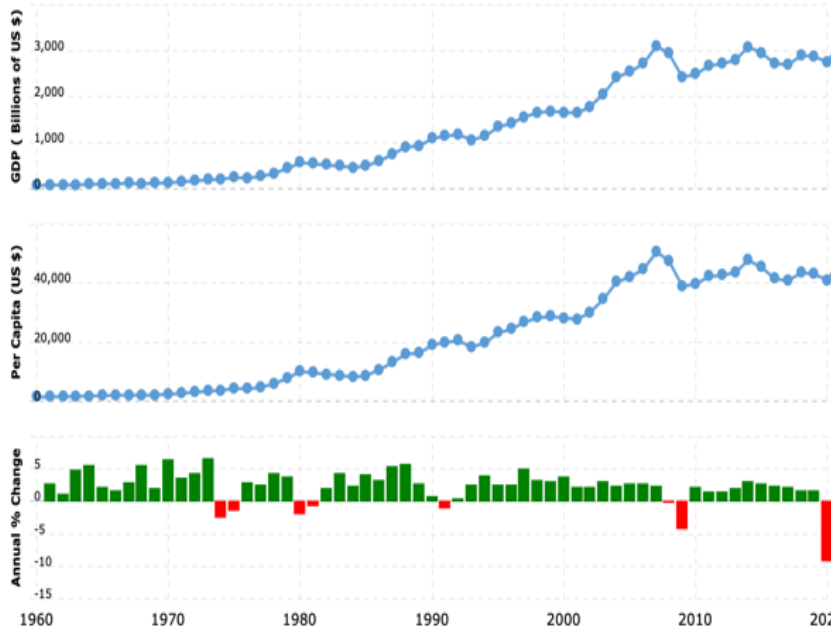


Fig. 2 The GDP of the UK [3]

With the prosperity of the Japanese economy, a question also enters the public's view: "Why could Japan have a marvelous economic success in such a short period?" In this article, the author will focus on the domestic policies that the Japanese government used to stimulate the economy in the postwar period to answer the rise of the Japanese economy. For modern countries, the economy always is one of the most important fulcrums to support national development. An impressive economic performance always is an unignored standard for scholars when they are considering if the country is in a good situation or even on the right path. The economic indexes can also reflect vital information about a country directly, such as whether the business is prosperous, the life satisfaction of the public, and the investors' confidence. Thus, scholars rack their brains to explore the truth of the economy. The economic success of Japan is weighted. Though Japan absorbed many empirical lessons and rebuilt its country under the influence of the west, its economy did not follow the idea of Neoliberalism, which had already become popular in the west in the second half of the 20th century. The miracle of the Japanese economy is worth attention because it represents a different path from its western teacher. Perhaps, humans can get closer to their goal, the best system for economic development, by focusing on Japanese success in the economy.

1.1 Difficulties that Japan Faced after the War

The miracle of Japan was not an independent event. It appeared in a complex background created by many factors, which made the answer diverse. The rise and fall of Japan's miracle have become history, but it was still significant for scholars to study the relationship between economy and policy.

Comprehensively speaking, the miracle of the Japanese economy is the consequence of the dual influence of international affairs and the domestic situation. With globalization in the 20th century, the bond among different countries has become increasingly tight and complex, which means international affairs must influence the development of a country to some degree. Both the Cold War and the Korean War profoundly affected the Japanese economy and provided a valuable chance for Japan to improve its position in the postwar world. For example, during the Korean War, American troops used Japan as a military base and consumed 1.136 billion dollars in Japan, which stimulated the Japanese market intensely [4]. Moreover, war and the tense atmosphere with the Soviet Union also made America decide to give Japan more space to develop rather than punish Japan severely for its atrocities in World War II.

Interiorly, with the Japanese government's lead, Japan went a particular way to develop its economy. It was a well-planned and tenacious path. In many degrees, the Japanese government's policies to improve its domestic economy could be seen as statism. Noguchi Yukio called it "the 1940 system" in his book [5]. It meant the Japanese government would play a unignore role in the economic development of postwar Japan and manage the country on a war footing. The interferences of government worked both directly and indirectly in order to create an enabling environment for growth. For this purpose, the Japanese government established a department to manage commercial activities and the economy. A department named the Ministry of International Trade and Industry (MITI). As the department responsible for developing the national economy, it published two policies that profoundly influenced the Japanese economy. The two policies are "Foreign Exchange and Foreign Trade Act" and "Inclined Production Mode".

1.2 "Foreign Exchange and Foreign Trade Act" and "Inclined Production Mode"

Japan published a law called the "Foreign Exchange and Foreign Trade Act" in 1949 [6]. One of the essential functions of this law was to limit currency exchange and control international trade in Japan. Each order of trade had to get permission from the Ministry of International Trade and Industry (MITI). This decision made MITI become one of the most influential departments of Japan in the postwar period. The Establish of MITI marked a vital point in the socioeconomic development of Japan, and it was proper to say that the existence of MITI can be seen as an epitome of Japanese statism of economy and an answer for why Postwar Japan could develop so fast in the economy. The function of MITI included: carrying out commercial and industrial policy, supervising the market and trade, and leading investment [7]. MITI represents that the Japanese government began to interfere domestic economy directly and wanted to develop its economy well-planned from a macro-perspective.

Besides that, MITI also had another policy which built the foundation for Japanese socioeconomic development: "Inclined Production Mode" [8]. This core idea of this Mode was concentrating forces to solve the most urgent need of the nation.

Compared to western countries, Japan had a different financial system, and it was hard for Japanese enterprises to fundraise cash from the domestic stock market. For most Japanese enterprises, when they meet a bottleneck of development or any urgent accident requiring a large amount of money, the most reasonable method is to apply for a loan from the central bank. According to the "Banks in Japan Act" in 1942, Japanese banks followed the rule that "Japanese banks must be run with a mandate to achieve national goals [5]." In the meantime, Japanese enterprises also cannot fundraise cash from foreign capital under the supervision of the "Foreign Exchange and Foreign Trade Act" [9]. Thus, the central bank had an important influence on the domestic market. Though it seems that a company could choose any field as long as it was legal, business would be much easier if the company entered

an area that the government of Japan wanted it to join. This imperceptible but inclined leading led to the market's development in accord with the Japanese government's plan for the economy.

2. Discussion: Good or Bad?

Though Neoliberalism and related theories increased their role in the 20th century and even gradually became a dominant policy that most western countries advocated, at least in the postwar period, the attitude of Japan toward Neoliberalism and the so-called free economy was contemptuous. In the view of Japan, Neoliberalism had no good for Japan to rebuild its country. Moreover, a completely free and open market can be toxic for the Japanese economy. After the war, Japan could not feed its people with domestic resources; even the food supply relied on importing very much. The most common and reasonable worry was that foreign goods and capital would crash the domestic market because Japan had no competitiveness.

2.1 The influence of "Foreign Exchange and Foreign Trade Act"

As a precaution, the Japanese government published the "Foreign Exchange and Foreign Trade Act" as a safeguard that the Japanese economy would not be looted by foreign capital. The strict trade rule made it hard for western developed countries to enter the Japanese market at will.

Moreover, it is predictable that a free and open economy system would lead to capital outflow. In this case, the "Foreign Exchange and Foreign Trade Act" was not only a protection but also a limitation to the domestic economy. Like its neighbor country Korea, Japan also had many consortiums inside the country, which played an important role in Japan's domestic economy and politics. After the occupation of Americans, these consortiums faced severe punishments from the Ally forces. It was considered that most consortiums played an ignominious role more or less during wartime, such as looting resources from other countries or supporting human experiments financially. All giant companies and consortiums in Japan were involved in the military industry more or less. Thus, with the end of the war, the ally forces dissolved most consortiums nominally and gave the order to reconstruct these military enterprises [10]. Meanwhile, the war left Japan nothing but rubble. It no longer had good soil for capital to develop commercial behavior and make a profit. If Japan followed the free will of the economy, its domestic capital and wealthy people probably would flee to other countries to find a better commercial environment, making it more difficult for Japan to recover from the depression after the war.

The supporters of Neoliberalism might criticize MITI for its interference in the market. However, it is undeniable that through the publishment of "Foreign Exchange and Foreign Trade Act", the Japanese government created a relatively stable internal environment, which is absolutely necessary for Japan to accumulate strength. The most powerful evidence to prove that this policy is beneficial is the famous Japanese companies still known by people worldwide today, such as Mitsubishi, Mitsui, Sumitomo, and Panasonic. The new law and MITI made these organizations had to stay in Japan and rebuild the socioeconomic system together with the Japanese government.

2.2 The Influence of "Inclined Production Mode"

Meanwhile, due to the rise of the Cold War, Americans also changed their initial plan for Japan, which made Japan can apply for fuel and other industrial raw materials in the 1960s [11]. It seems that the economy of Japan formed a closed cycle. Japanese people needed goods and other industrial products in their daily life, and private sectors required the market to consume their products. Under government protection, the need of people and the need of factories were perfectly complementary because they were the only choice for each other. This closed cycle helped Japan eliminate dependence on America's economy objectively and had conditions to become a modern industrial country.

The existence of the "Foreign Exchange and Foreign Trade Act" allowed Japan to start industrialization. Still, the "Inclined Production Mode" made Japan achieve this goal. The "Inclined

Production Mode" not only meant the Japanese government would focus on heavy industry. The more important part was that this policy would guide nongovernmental capitals to flow into heavy industry and form a benign development. Loans from the banks are essential for a company to develop and expand its business because it means more liquid cash. Because private enterprises can have priority in getting loans and other benefit able resources from the government, under the influence of the "Inclined Production Mode", though the heavy industry is a high threshold and long payback period field, it still became the popular business in Japan.

Objectively speaking, the Inclined Production Mode built a firm foundation for Japan to become an industrial power in the 1960s-1970s. The developed industry is the prerequisite for a prosperous economy in modern countries. In the form, the audience can tell that Japan's steel production was quite behindhand in the 1950s-1960s. Still, steel production was improved rapidly since 1960, and the increase in steel production lasted until 1975, which is almost equal to America [5]. In 1968, the GDP of Japan exceeded other western counties and became the second biggest economic entity in the world, only next to America.

3. Conclusion

The success of Japan in the economy in the postwar period was unprecedented. From a backwards country to a developed industrial power, Japan used a well-organized plan and superior executive force to prove that a political economy and statism could create a miracle. The publication of "Foreign Exchange and Foreign Trade Act" created a stable environment for commercial activity, and the "Inclined Production Mode" flourished domestic heavy industry. Neoliberalism against government interference in the economy and criticize protectionism. Still, as a visible example, Japan's success has proved that government interference is not doomed to fail and be negative. In a suitable situation, statism can play a significant role.

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