

Exploring the Impact of Government Policies on Japanese Economy from 1945 to 1960

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Abstract. Japan was known as one of the largest economies in the world and its economy once created developing miracles back to the 1960s-1980s. However, Japan went through a very difficult time after the World War II, its capital and investments declined so much during the war that the whole country lost almost all its advantages comparing with the United States and many other developed countries, and yet, Japan still found a way out of the trouble and started to build its new path to success on economy. The question about how this country recovered so fast has bothered people for a long time. The core of Japan's success comes from its changes after the failure of the war, and most of its economic and political structure changes were led by the Japanese government and SCAP which played important roles during this complex and difficult period. Policies established by the Japanese government and SCAP almost influenced this country's many aspects, especially in agriculture and industry areas, and the reform of these domains finally led the whole country's economy to develop. This article is going to research on how these policies influenced the country and why these changes are important by researching details of some most important policies the Japan government had established during this period and analyzing their historic contents and statistics. The research result and process would provide a new perspective of economic development to the public.

Keywords: Economy; GDP; Agriculture; Japan.

1. Introduction

Even though the Japanese army hurt hundreds of millions of people, the Japanese empire showed its strength during World War II objectively. Its military and navy strength gave Allies a lot of pressure, especially during the beginning process of the war, which required both a well-trained army and powerful industry abilities. However, the Japanese empire was forcing the entire nation to produce weapons and steel while normal citizens were living under a very low economic situation in order to fight against China, the United States and Great Britain, which means Japan's economy was not as strong as people thought it would be. The economy and society structures had already shown their brokenness before the war, and the whole nation was even more lacerated after the crush of the empire. Therefore, it seems to be very incredible for people to believe that Japanese' economy boosted at an extremely high speed only years after World War II.

In fact, if people really split the structures and policies Japan had during 1945-1960 carefully, it is not that hard to find out the relationship between government and economy in Japan: democratize policies relieved fetters blocked on both citizens and country at the same time. The liberation of farmers and workers is the most important and basic premise for the economy to blow. In other words, the main purpose and success of economic democratization policies published by the Japanese government and SCAP is to stimulate the majority of citizens to engage in economic production [1]. Even though the path of Japanese economy and political reform didn't reach all its original targets, Japan still made economic leaps forward [2]. Its own government and the government of the United States played an important role during this historical period.

This article is going to research the impacts of the Japanese government towards the Japanese economy during 1945 to 1960 by exploring details and contents of major policies to analyze how the government is really involved in the development of the economy effectively.

The first part of this research is about agriculture reform in Japan as the most important aspect of a nation's wealth, and the second part of the research will focus on the development of Japanese manufacturing industries.

2. Research about changes in Japanese economy

2.1 The reform of Japanese agriculture

Food shortages were the most serious problem Japan faced after World War II. Due to the ravages from the war, Japan's agricultural acreage has been reduced by 14 percent, and the agricultural labor force has decreased by over one million. Means of agricultural production also got affected: over eighty percent of fertilizer production and agricultural machines had been reduced. The direct result of these damages is an over 40 percent reduction in agricultural output. Famine prompted the Japanese government to establish policies aimed at food self-sufficiency. In 1946, the Japanese government passed "the Peace Constitution" and the land-adjusted act, the Japanese land reform was started [3].

According to the new policy, landlords' lands beyond one hectare were sold to tenant farmers at 40 times the annual rent price. Each village established a reform committee consisting of 3 representatives of landlords, 2 representatives of owner-farmers, and 5 representatives of tenant farmers to establish a self-farming system in the countryside. In 1947, the Law of Agricultural Cooperative Organization was promulgated to rebuild the Japanese Agricultural Association. The postwar Japanese agricultural and rural policy was developed on the basis of democratic reform [4].

The new price supporting system and subsidy system was created in 1949 by the Japanese government. The purpose of the new system is to increase the income of farmers and satisfy the food self-serving in villages, so farmers would be able to develop their efficiency by purchasing production machines in the future. The increased wealth among farmers can also help Japan to stimulate domestic demand and promote industrial goods production. Over two million hectares of land were transferred to farmers when land reform was about to finish in 1950. The rate of owner-peasant was increased from 31 percent to 62 percent. Farmers who owned less than one hectare of land reached 75 percent of the total agricultural population. The entire peasant household reached over 6.17 million as the highest number in Japan's history. Over 62.7 percent of the population lived in villages. The Japanese government established the agricultural land act in 1952 which confirmed "possess", "manage" and "work" as principles to consolidate agricultural development and the owner peasant system.

The subsidy system towards agriculture was more complete than before in Japan in 1955, and the Japanese government kept increasing the strength of supporting domestic agriculture to ensure the price of food. Japanese subsidies towards agriculture include price subsidies to agricultural products (rice, vegetables, meat, milk and beans); subsidies to agricultural machines and facilities, constructions, agricultural production insurance, and agricultural modernization loans [5].

According to the "Land Improvement Act (Act No.195 of 1949), the Act on Improvement and Increased Production of Livestock (Act No.209 of 1950)", there are two major targets for agricultural policies: increase the agricultural productivity to reduce the difference between agricultural and other industries; and elevate the income of the agricultural population [6]. Japanese agriculture broke out of a great momentum of development based on support from policies. Japan's yield of rice reached the target of self-serving and began to export to other countries in the late 1960s. At the same time, the income difference between village population and urban population kept decreasing because of the development in agriculture.

The increased wages of the agricultural population stimulated domestic demands and settled poverty among the country to a great extent. When farmers become more wealthy, their generations and themselves are more likely to get a higher education because the fee of university was more acceptable for them. The new group of high education population, which comes from villages, provides a large number of potential technical populations to Japan and increases the strength of the country when Japan shifts to high technology industries and cultural industries decades later.

The development of Japanese villages not only comes from national outlook considerations, but also from the giant voter constituency. It is nearly impossible for Japanese politicians to win the election if they lose support from farmers.

According to “Japanese Agriculture Under Siege”, the average income in villages increased from 57000 yen to 326000 yen from 1955 to 1970, while the average income in cities increased from 74000 yen to 358000 yen during this period [7]. The proportion of average income in villages to average income in cities increased 14 percent to 91%. It is obvious to see that the gap in the economic level between village and urban areas was decreasing, which helps the country to resolve poverty and illiteracy. (Though Japan already had a high education rate in the past, it is still important for the government to use their most important resource-people as well.)

2.2 The rise of Japanese industry and economy

However, just reform of agriculture can save Japan from starvation and poverty, but it cannot lead this country to wealth and development. In fact, although the average income in the agriculture population kept increasing, the percentage of agriculture in the total economy was decreasing. From 1955 to 1970, the percentage of agriculture among GDP decreased from 21.0 percent to 7.4 percent. It is the symbol of the Japanese economy shifting from the primary sector of the economy to the secondary sector of the economy, and the potential rise of the tertiary sector of the economy.

The situation of Japan's industries is more complex than Japan's agriculture, but its development prospects are more optimistic. Unlike agriculture, industries don't require large, superior tracts of lands to plant. On the other hand, it needs capital, technologies, and labor forces. Coincidentally, Japan satisfied all these three premise conditions.

Japan needed to pay war reparations for what it had done during World War II; the responsibility of the government became a heavy burden on Japan's economy and industry. The turning point happened in 1948, when the American government started to reconsider the situation in Asia. In order to face political change in China and the rise of the Soviet Union, America needs a strong democracy supporting area as the bridgehead against communists. Thus, the Dreiber compensation scheme was passed in January 1948, which claimed to cut the amount of war reparations the Japanese government needed to pay. In May 1948, a five-member review board came to Japan to survey the implementation of excessive concentration of economic power exclusion. Until December 1948, the Nine Principles for Stabilizing the Economy were raised by America as a part of the Dodge Plan. The Nine Principles for Stabilizing the Economy mainly include cutting government spending, balancing the budget, raising taxes, limiting lending, stabilizing wages and strengthening prices. The implementation of the Dodge Plan caused a recession in Japan at the beginning, but it also helped Japan stabilize the price of goods and currency. The inflation was contained, which created a stable macroeconomic environment for the subsequent implementation of credit and other industrial policies in the future. The structure of Japanese industry structures was more reasonable and modernized. The United States officially announced to stop Japan from paying reparations for the war in 1949; the fetter of the Japanese economy was removed after it.

In June 1950, the outbreak of the Korean War brought another inciting shot to the Japanese economy. In order to support the war from the closest location, America stationed a Logistics command at Yokohama and started to purchase large amounts of military materials from Japan. The transaction amount reached one billion dollars from 1950 to 1952, which created hundreds of thousands of working opportunities in the Japanese market. More importantly, the limitation for Japan from producing normal weapons was canceled in March 1952. In order to develop and standardize the production of Japanese industries, American technicians went directly to Japanese factories to guide quality management and engineering management, which helped Japan achieve efficient mass production. The experience and technologies gained from fixing and producing weapons, especially fixing tanks and air crafts, provide precious opportunities for Japanese firms [8]. Large companies such as Mitsubishi Heavy Industries, Ltd and Subaru had raised strength to create commercial empires during this period.

Jinmu keik refers to Japan's first post-war economic boom from December 1954 to June 1957. It is the beginning of a period of high economic growth. In 1956, Japan formulated the "five-year Plan for Electric Power", which focused on the construction of the electric power industry and replaced coal power generation with oil. Therefore, a large amount of crude oil is imported from other countries, which greatly promotes the development of the refining industry. At this point, the Japanese economy not only fully recovered from the Second World War, but also entered a new stage as an independent and active economy.

3. Results

After decades of economic growth, Japan became the second largest economy in the world in 1968 and kept this title from 1970 to 2010 (West Germany once outstripped Japan on GDP in 1969 but Japan got the title of second largest economy back in 1970) [9]. The GDP growth situation of Japan is shown in Figure 1. Therefore, the experience of how Japan succeeds in its economy has referential significance to other countries nowadays; especially the policies Japan established between 1945 to 1960 can be very helpful for others to learn or consider. These policies are fundamentals of the following developments between 1960 to 1990. Without these key basic policies, there is no possibility for Japan to develop its high technology industries in the ruins after World War II.

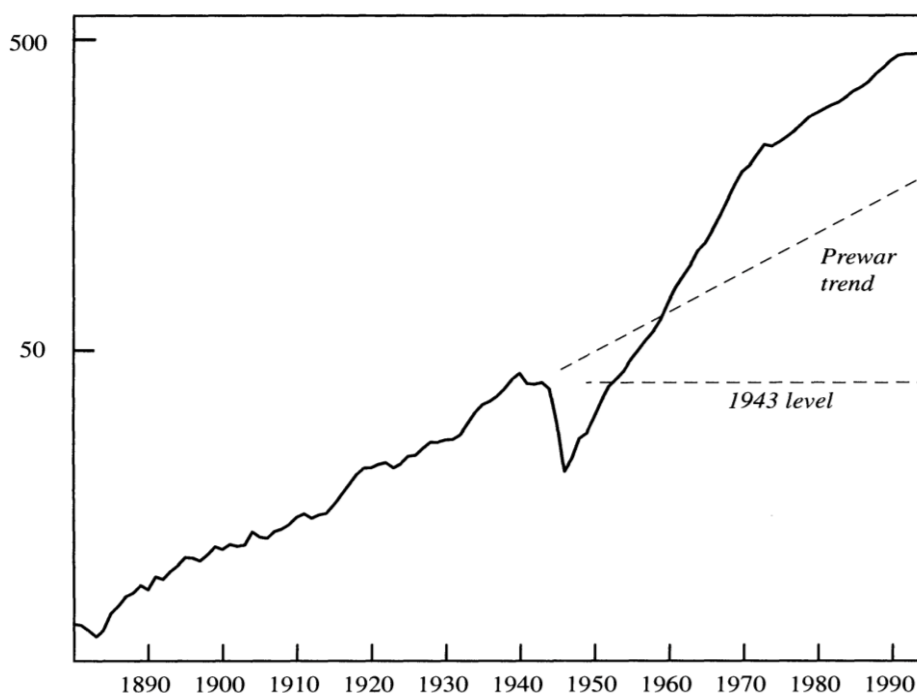


Figure 1. Real GDP, Japan, 1880-1995 a Trillion of 1990 yen (logarithmic scale) [10]

4. Conclusion

The success of the Japanese economy is hard but not impossible to learn by other nations. Although there are unpredictable factors which influenced Japan's development process besides government's influences, primary improvements of Japan between 1945-1960 still came from its new policies and reforms after World War II. From this point of view, it is logical to consider that policies the Japanese government established from 1945 to 1960 were positive for the Japanese population in general. The reform of the economy, legislation and politics helped Japan recover soon from the devastation of the war and started the period of a thriving economy.

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