Postwar Reconstruction

TRACK 2

Defeat in World War II hit Japan hard. Repeated air raids destroyed factories and production facilities and nearly annihilated industry.

After the war, the policies of the Allied Occupation Army set Japan on the road to reconstruction and democratization. The first step the Occupation Army took was to break up the *zaibatsu* (like Mitsui and Mitsubishi), which had controlled the prewar Japanese economy. Secondly, it implemented agricultural and land reforms to establish an owner-farmer system. Thirdly, it enacted the

Labor Standards Law to help democratize labor.

The Priority Production System was one policy that helped the postwar Japanese economy recover. This system directed Japan's limited capital and resources into the production of primary materials. These primary materials served as an engine for the whole economy. The Priority Production System first targeted basic industries such as coal, iron and steel, and then other industries such as food and fertilizer.

The Korean War broke out in June 1950 and lasted until July 1953. During the war, Japan received large orders from the U.S. Army for blankets, trucks, steel, and other war materials. As a result, Japan's exports grew rapidly.

These special orders for Korean War goods started the full recovery of Japan's economy. All the economic indices, such as industrial production, personal consumption, privatesector investment, and the gross national product (GNP), returned to their prewar levels. Now the process of recovery from the postwar chaos was almost complete. The economy was entering into a rapid growth period.

The 1956 Economic White Paper declared: "The postwar period is now over."

Rapid Growth

After the postwar recovery, the Japanese economy grew strongly from the mid-1950s to the early 1970s. This rapid growth was due to a large supply of cheap, high-quality labor, a high savings rate, and a strong drive by corporations to invest.

Soon after becoming prime minister in 1960, Hayato Ikeda announced the Income Doubling Plan. Under the plan, an economic growth of around 9% for 10 years would result in a doubling of GNP and national income. In fact, the economy grew at an average of 10.9%, well above the Ikeda target. Japan was on the road to becoming an economic superpower.

In 1964, Tokyo held the Olympic Games. Development for the games included the Tokaido bullet train and the expressways. In 1968, Japan's GNP ranked No. 2 in the world. The hardworking white-collar workers, often called "company men" (*kaisha-ningen*) or "passionate salaried employees" (*mouretsushain*), were one reason behind this high economic growth.

During the period of rapid economic growth, there were several large-scale economic booms. The Jimmu Boom (1955–1957) and the Iwato Boom (1958–1961) were driven mainly by capital investment from the heavy-chemicals industry. In contrast, exports of Japanese goods drove the next boom: the Izanagi Boom of 1965–1970.

During the period of rapid economic growth, consumer durables became more widespread thanks to a fall in prices brought

about by mass-production. In the late 1950s, the television, washing machine, and refrigerator were called the "three sacred treasures" of consumer products. In the late 1960s, the car, the color television, and the air conditioner (the three C's) became the "three *new* sacred treasures."

However, pollution-related problems, such as Minamata Disease and Itai-Itai Disease in the late 1960s, showed that rapid economic growth had its negative side, too.

In 1971, U.S. President Nixon stopped the convertibility of the U.S. dollar into gold. This was called the "Nixon Shock." This forced the yen exchange rate up. Next, the 1973 Yom Kippur War in the Middle East started the first oil crisis and caused the price of oil to rise. These external shocks brought Japan's rapid growth to an end. The economy grew at slower and steadier rates from this point on.

The Bubble Economy

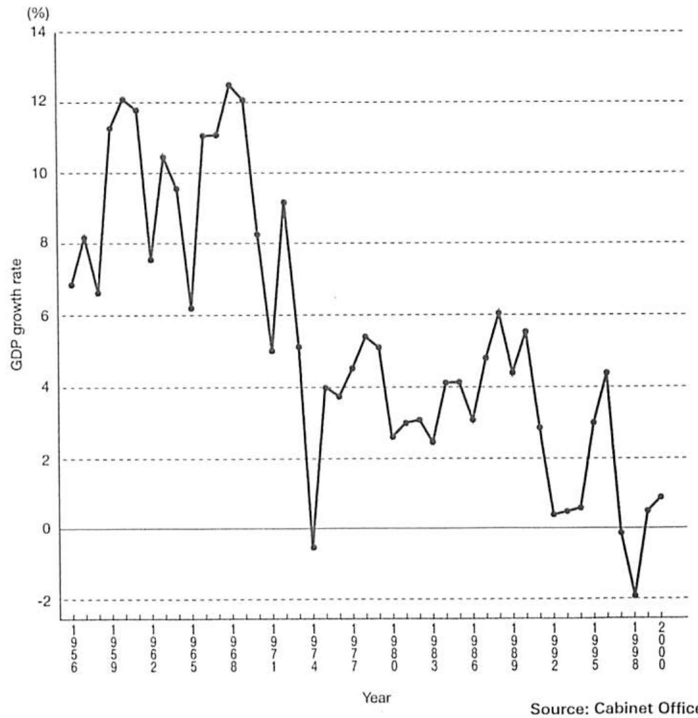
The boom of the late 1980s and early 1990s was driven by a bubble caused by speculative fever in real estate and stocks, known as the "bubble economy."

The 1985 Plaza Accord triggered the bubble economy. Finance ministers and central bank governors of the five advanced nations (G5) assembled for the Plaza meeting at the request of the United States, which was suffering a trade deficit brought about by the strong dollar. At the meeting, the G5 leaders agreed that participating countries would carry out coordinated intervention in the

foreign exchange markets to bring the value of the dollar down.

As a result of the Plaza Accord, the yen appreciated rapidly. On the Tokyo market, the yen had been trading at 242 yen to the

Japanese Economic Growth Rates



Source: Cabinet Office

U.S. dollar prior to the Plaza Accord. By the end of 1985, the yen had become so strong that it passed the 200-yen-to-the-dollar level. The appreciation of the yen created a foreign-exchange loss in dollar-denominated assets such as U.S. government bonds. This drove capital back to Japan where there was no foreign-exchange risk. The official discount rate was lowered five times by February 1987 in order to help the competitiveness of domestic exporters and manufacturers, which had fallen due to the strong yen. The official discount rate hit 2.5%. This was the lowest level since the end of World War II.

This process led to a boom in domestic investment in real estate and stocks. Stock and land prices both rose, but land prices rose particularly high because of the "land myth"—the belief that land prices would never fall. Banks expanded their loans with land as collateral. The rise in the value of assets and the resulting unrealized profits

only encouraged individuals and corporations to invest more. Land-sharking became a social problem and the mad buying of overseas assets caught a lot of public attention.