



# The reforms and postwar Japanese economic performance from 1946 to 1993

*“Let us create a world without war”* (Kijuro Shidehara)

## **Abstract:**

This case studies the shifts the Japanese economy underwent in postwar years in order to adapt to prevailing international and domestic trends. The Japanese economy, from 1946 to 1993, had been subject either to imposed reforms by the Allied forces during the occupation, or to the visions of its own successive leaders once the allied drew to a close. This case study analyzes how Japan was able to successfully reconstruct its economy and later sustain it by first employing special measures and then, later, by using a priority sectors policy.

As recovery from war came to be achieved, the leadership realized that their country had the potential to become a substantial player in the global economy. With this prospect in mind, Japan went through several policy and implementation changes. Some were difficult to implement or led to unexpected changes be they positive or negative, but each case served as a lesson to learn.

From the imposed economic policy to Japan’s own economic model, the Japanese case surpassed all expectations. Successive governments tried their particular set of policies aimed at boosting the economy. Of course, the occupation forces wanted Japan to undergo reforms in order to escape the threat of Soviet dominion, and also freed from all belligerent mindsets. However, Japanese leaders focused on just what their people wanted, and addressed the social demands of the people. The path toward this ultimate goal was difficult and complicated, sometimes encountering fierce opposition and fears along the way. Nevertheless, each leader managed to keep a steadfast focus on economic prosperity serving to bolster the well-being of

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the people. In a nutshell, it ended with such unprecedented growth that many lessons are still being learnt from it.

When Japan became a confirmed industrialized country, the challenges to sustaining growth and becoming able to withstand both domestic and international shocks greatly multiplied. From a distance, while those six decades may look like times when assured growth could be expected, the reality as things unfolded was more haphazard, often necessitating drastic adjustments in response to developments. Japan navigated several stagnations, eventually leading to deregulation that culminated in the bubble.

This study recalls the chronology of some major changes in government policies in order to accommodate domestic and international pressures especially during times of recession. It then looks at how the political situation provided the lasting stability which was so crucial for the country’s economic re-emergence, miraculous ascendancy, and continued sustainability.

The study then shifts to explore to what extent the Japanese case offers scope for transposing to developing countries, especially in Mali’s context, in West Africa.

**List of abbreviations:**

- FDI ..... (Foreign Direct Investment)
- GHQ .....(General Headquarters)
- LDP .....(The Liberal Democratic Party)
- MITI ..... (The Ministry of International Trade and Investment)
- MOF .....(The Ministry of Finance)
- R&D .....(Research and Development)
- SCAP.....(The Supreme Commander Allied Powers)
- UN..... (The United Nations)
- US..... (The United States)
- USA.....(The United States of America)
- WWII.....(World War II)

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## I. The origins of the stability of modern Japan:

After the end of World War II (WWII), nothing looked the same for Japan. Japan was occupied until 1952. The objective of the Allied Powers was a “*direct military control in favor of indirect control through a Japanese civilian administration*”<sup>1</sup>. Unlike Germany, Japan was occupied only by the USA.

The Supreme Commander of the Allied Powers (SCAP), under the command of General Douglas MacArthur, proposed a series of reforms tending to “*Democratize, demilitarize and reconstruct*” Japan. Some structural changes were adopted under a new constitution. Therefore, the Japanese government adopted under a constitutional monarchy, the multiparty bicameral system. The emperor, still the head of the state, lost all executive powers. And he became the symbol of the state. An elected prime minister, whose cabinet is mandatorily civilian (article 66 of the constitution), is responsible before the parliament. The Diet has control over the legislative branch, likewise the Supreme Court over the judicial.

The cabinet is vested with all executive powers implemented by a prime minister nominated from an elected majority party or a coalition majority of elected parties.

Also, the provisions of Article 9 of the new constitution, prohibiting the use of force and outlawing war to resolve international disputes, along with Japan’s security treaty with the United States since 1951, have enabled Japan to prioritize and focus on its economy instead.

And lastly, the principle of ‘*accountability*’ was settled once and for all in order to avoid unpredictability in decision-making such as in the Manchurian Incident case. This was an important step towards enabling economic recovery.

Shidehara’s government, from October 1945 to May 1946, had to embrace women’s rights and promote more open and conciliatory approaches pertaining to the “*democratization of the economic system*”. Many reforms started from that time.

## II. The reforms era:

### 1. The Dodge Line:

Shidehara’s philosophy of “*senso naki sekai*”, ‘the world without war’ was not only about politics, it had an economic wing as well. Japan had severely suffered from war and needed new dynamics regarding the scarcity of resources. Not only had it lost around 3 000 000 people including civilians, but also many industries had been bombed

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<sup>1</sup> Takafusa Nakamura, (*A History of Showa Japan 1926-1989, Tokyo, Tokyo Keizai Shinposha, 1993*), 262.

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to oblivion during the war. The shipbuilding industries, for example, lost 80% of their assets, and compounding this problem was inflation, which grew to a desperate level. A product costing 100 yen in August 1945 saw the price rise to 346.8 in September, reach 584.9 in December and soar to 1184.5 by March 1946 (Chalmers 1982, p.178-179).

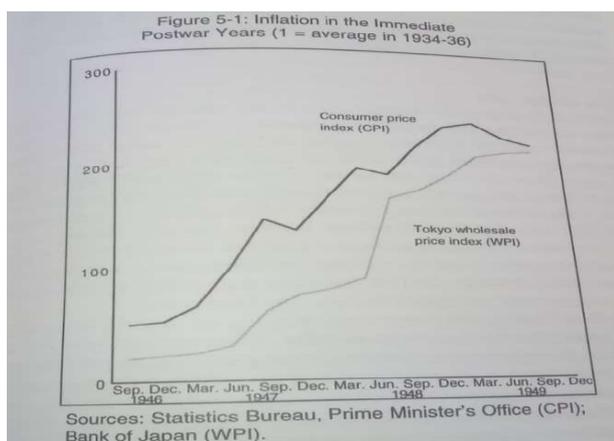
As the government could not succeed in tackling the inflation, the SCAP assigned to the financial adviser, Joseph Morrell Dodge, the mission of stabilization and reconstruction. In order to implement this project, the Dodge Line<sup>2</sup> was adopted in 1949. It was a nine-point plan drafted to incorporate some major changes in the Japanese economy.

In order to bring inflation under control, Japan's response was not quite what SCAP could have wanted. The strategy of Prime Minister Ishibashi from December 1956-February 1957, of pouring money in in order to boost production, was not welcome by the General Head Quarter (GHQ) of the SCAP.

However, what it did was increase productivity without tackling inflation, setting Japan's postwar economic position henceforward in a unique situation.

To tackle inflation, the Dodge Line proposed some drastic measures including procuring a more efficient tax system, dissolving the reconstruction bank, limiting government intervention and settling the convertibility of 360 yen to 1 US dollar. The following chart shows the rate of inflation during the referred times.

- *Inflation before the rise of Japan*



**Sources: Statistics Bureau, Prime Minister's Office (CPI); Bank of Japan (WPI).**

<sup>2</sup>Kozo Yamamura, *Economic Policy in Postwar Japan: Growth Versus Economic Democracy*, Volume 1, 29.

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According to Nakamura<sup>3</sup>, between 1946 to 1949, wages went fifty-seven times higher and prices grew one hundred and ten times more than in the prewar equivalent period. Such hardships were barely supportable by average people, precipitating the Allies to draw the Dodge Line project because Japan needed to be competitive in international markets.

In the beginning, the objective for America was only to maintain Japan on economic dependency, later, however, the situation became advantageous for Japan. In particular, the Cold War in the Korean Peninsula came to have positive impacts on the economy of Japan. Tiltman<sup>4</sup> described the Korean War as: “...*a great opportunity*”. As a base for providing US troops with basic materials, the *tokuju* or special procurements provided to the Japanese economy 590 million USD in 1951, rising to more than 800 million in 1952-53 (Nakamura 1995<sup>5</sup>). Both imports and exports increased because of high demands for the production industries. The time of growth had started. Thus, the Korean war facilitated the implementation of the Dodge Plan, and the reconstruction of Japan.

2. **The reforms of ministries:** The reforms of ministries and other institutions occurred in different ways. Ministries in connection with war were targeted by the SCAP. The home ministry, the ministry of the army, the ministry of forestry, and the ministry of munitions were either disbanded or reorganized. New ministerial and public bodies also emerged as a result of these reforms.

However, as the Americans feared Japan might swing to the side of the communists were America to assert full direct interference, indirect rule, especially in terms of the economy, was allowed to be implemented by the Japanese themselves. As Chalmers Johnson<sup>6</sup> said: *Americans...demanded state controlled-trade*” which the Ministry of International Trade and Investment (MITI) will be orchestrating.

**2.1 The Land reform:** Government controlled regulations were needed in order to create more social justice. The series of regulations included agrarian and properties reforms as well. As in many countries, Japan suffered from the yoke of rich landlords, especially in the rural areas. However, ambitious reforms permitted the confiscation of all farmlands to from all owners who were not living in rural areas.

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<sup>3</sup>Takafusa Nakamura, (*A History of Showa Japan 1926-1989*, Tokyo, Tokyo Keizai Shinposha, 1993), 295.

<sup>4</sup> Roger Dingman, "*The Dagger and the Gift: The Impact of the Korean War on Japan.*" *The Journal of American-East Asian Relations* 2, no. 1 1993), 29.

<sup>5</sup> Takafusa Nakamura, *The Post-war Japanese Economy: its development and structure 1937-1994*, (Tokyo, University of Tokyo Press, 1995), 45.

<sup>6</sup> Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975*, California, Stanford University Press, 1982), 173.

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With that policy, the ministry of agriculture and forestry turned the farmers into landowners and anyone possessing more than five “*chobu*” around five hectares had to sell the excess to a new buyer. Derisory compensations were paid to the ex-landlords, but the distribution of land became equitable and respectful to local farmers. As a result, farmers were empowered, and agricultural production boosted. This popular policy in rural areas was a key determinant in establishing the future course of the Liberal Democratic Party (LDP), and with it, Japan’s longstanding stability, as we will see in chapter V.

**2.2 Labor reforms:** GHQ also imposed the creation of labor unions in order to facilitate social dialogue between employers and employees. The weekly hours of work, holidays and limitations on women’s and children’s labor were firmly established. Consequently, many unions were founded at this time. Several social movements formed and exerted pressure because of the dire context of uncontrolled inflation.

**2.3 The Ministry of Education:** Compulsory education was introduced as part of the reforms to be implemented under the guidance of SCAP. The Allies thought that educational change was necessary for the transformation of Japanese people’s mindset which was thought to be too militaristic and too undemocratic. They successfully implemented what is called the 6-3-3-4 system which stands respectively for Elementary School, Junior high School, High School and University. For those who could not attend 4 years at university, they could study two years at Junior College. It is typically inspired from the USA system. The feudal discriminative education system was over with equal opportunities between girls and boys regardless of social status, but with meritocracy.

Considering the growing pace and role of industrialization, junior engineer technical college opened later. In 1976, special training regarding medical health, technologies and home economics were also introduced.

**2.4 The Ministry of International Trade and Investment (MITI):** Formerly called Ministry of Commerce and industry, MITI has a long history of shaping Japanese industrial policy. Because of its military background providing supplies to the imperial army, it took time for the civilian bureaucrats to have full independence vis-à-vis the militaries. In the wake of military defeat, civil government sent the

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militaries back to their barracks in order to give full responsibility to the industrialization policy (Chalmers, 1982<sup>7</sup>), without undue military influence.

Inasmuch as finance is considered the pivotal heart of economic policy in Japan, MITI masterminded the whole system. MITI encouraged mergers, grants, and tax incentives for providing strategic materials (Bela Balassa and Marcus Noland, 1988<sup>8</sup>).

It set the regulations on products supply and distribution. For instance, assuring a smooth regulation on acquiring raw materials necessary for local industries to run.

- a. **Industrial policy of modern Japan:** The first postwar industrial policy was called *“Food for coal”*. After the Chinese and Korean workers left the coal mines, (154,000 of them<sup>9</sup>), a severe energy crisis hit Japan. Unfortunately, this policy failed to reverse the situation. As a result, the expected quantity of coal could not be reached, moreover, the costs related to its production were excessive.

Finally, a new law would come to be passed to meet the *“materials supply and demand plan”* goals. *“keisha seisan or Priority production”* was a new policy created in 1947 in order to ensure that certain economic needs of the country were given priority. The new ‘*economic stabilization board*’ was established to overcome both the coal and food crises. The team gave the paramount place to coal supply. For them, this would invigorate the rest of the industries since coal lay behind the production of electricity itself, steel production (shipbuilding, automobiles, railroads to name a few) and related industries. Through use of Reconstruction Finance Bank loans, Yoshida’s administration got close to the desired 40% increase in coal and steel production even though the economy was still precarious and volatile.

- b. **The basic-trade direction of trade and industry policy:** This was a set of policies issued to boost innovative technologies. From the early 1960s until mid-1970s, MITI promoted Research and Development in fields such as robotics, computer science, communication and circuits.

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<sup>7</sup> Chalmers Johnson, (*MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975, California, Stanford University Press, 1982*), 169.

<sup>8</sup> Bela Balassa and Marcus Noland, *Japan in the World Economy* (Washington DC, Institute for International Economics, 1988), 37.

<sup>9</sup> Johnson, *ibid.* 179.

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Another project which followed this in 1981 was called the *Next-Generation Industries Basic Technologies*. It additionally promoted technologies related to medical science, telecommunication, space and other aerial devices while nevertheless continuing to accentuate sectors promoted earlier. Special funds were allocated to provide subsidies to companies developing in fields related to these strategic and specialized products.

Besides giving precious directions to Japanese firms, MITI imposed trade and tariffs barriers to protect them from foreign competitors' pressures. Importing was under stricter regulations especially for non-strategic materials and manufactured items. As a result of tough domestic regulations, acquiring patent and trademark were quite difficult and time-consuming in Japan (Bela Balassa and Marcus Noland). According to their book, the government reduced import tariffs significantly in the decades from the mid-1960s to mid-1980s. The lowest tariffs could be seen in the acquisition of raw materials. However manufactured and agricultural products still maintained significantly higher burdens if entering Japanese market. The following figure illustrate this.

**Japan in the 1960s and 1970s: Tariffs on import**

<b>Regions</b>	<b>Raw materials</b>	<b>Semi manufactures</b>	<b>Finished manufactures</b>
<b>Europe</b>	0.2	4.2	6.9
<b>USA</b>	0.2	3.0	5.7
<b>Others</b>	0.5	4.6	6.0

*Source: Bela Balassa and Marcus Noland in Japan in the World Economy p.50*

From this table, we see that Japan had already a more accommodating policy with the USA which pays for instance on manufactured goods 5.7 while the European Union countries pay 6.9 on the same products. However, until 1994, Japan was not in the top 5 host countries of USA Foreign Direct Investment (FDI) while the USA was the leading economy of the world. This can be explained by the difficulty for foreign companies to access Japan's market. See illustration on the following table.

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**TABLE 3-1** U.S. FDI Position; Total and Top Five Host Countries, Year End Historical Cost, billion dollars

1983		1988		1994	
Total	207.8	Total	335.9	Total	612.1
Canada	44.3	Canada	62.7	U.K.	102.2
U.K.	27.6	U.K.	49.5	Canada	72.8
West Germany	15.3	West Germany	21.8	Germany	39.9
Switzerland	14.1	Bermuda	19.0	Japan	37.0
Bermuda	11.1	Switzerland	18.7	Switzerland	34.5

SOURCE: U.S. Department of Commerce data as compiled in Japan EconomicInstitute, JEI Report, various issues.

Once the post-war recovery was unquestionably achieved, Japan started to become an open market, and that was during the 1980s and 1990s. Its FDI skyrocketed in many countries especially in North America, Europe and Asia as detailed in the next table.

**TABLE 3-3** Japan's FDI Position Abroad; Total and Regional Distribution, billion dollars

	1983 <sup>a</sup>	Percentage	1988 <sup>b</sup>	Percentage	1995 <sup>c</sup>	Percentage
Total	61.3		186.4		463.6	
North America	17.9	29	75.1	40	202.7	44
Europe	7.1	12	30.2	16	89.9	19
Asia	16.4	27	32.2	17	76.2	16
Latin America	10.7	17	31.6	17	55.1	12

<sup>a</sup> As of March 31, 1984.

<sup>b</sup> As of March 31, 1989.

<sup>c</sup> As of March 31, 1994.

SOURCE: Japan Ministry of Finance data as compiled in Japan EconomicInstitute, JEI Report, various issues.

It is obvious from this table that the Japanese economy had not only re-emerged with its reconstruction, but also grown to become a gigantic economy. Thus, the former foundations have to be reshuffled again.

## 2.5 The Ministry of Finance (MOF):

- a. **Strong bureaucracy:** The finance ministry is said to be the most powerful department among Japan's ministries in several different ways. All the public expenditures are decided here. It is the main bridge in terms of negotiation between industries. The finance ministry has full authority to shape its policy objective without fear of being supplanted by another institution. For instance, in the case of the USA court or congress can oppose the agendas set by the treasury. This freedom of action is guaranteed for bureaucrats' decision-making in Japan.

The autonomy is almost absolute. Through history, this institution has shown its importance and its ability to help steer regarding fundamental changes.

The enormous responsibilities the finance carries has led some analysts to suggest its breaking it up. It was simply too huge for a single entity. Kenichi Ohmae called it a “*dinosaur*”.

For these reasons, Christopher Wood, who was a Finance Editor of the Economist in Tokyo, proposed that the tax, securities, banks, and budget had to be allocated to different “*independent entities*” instead of all belonging to the MOF only. But such ambitious reform risks splitting LDP into many potentially divisive voices. Usually, as Wood himself pursued, after retirement from MOF, the retirees (former bureaucrats) were granted employment in politically sponsored organizations<sup>10</sup> such as banks, insurance and securities, companies or just going directly into politics.

As of 1988, one third of LDP members were retirees from the MOF, he added. This implied that politicians and bureaucrats mutually collaborate and prefer the status quo.

- b. Tax issues in Japan:** Unlike the land, labor and antitrust, reforms and tax reforms were initiated by GHQ. For instance, tax reform was a significant domestic move. It has always been a tough question between the LDP and the bureaucracy especially when interests were divergent.

Thus, Premier Yasuhiro Nakasone and the MOF have had tough negotiation over income tax (Kato<sup>11</sup>) for example. While the MOF wanted to create new indirect taxes, Nakasone privileged a reform regarding the income tax in direct line to his personal political agenda. His cabinet failed to pass his reform in the Diet which was in favor of the bureaucrats.

At the same time, the MOF also could not introduce the indirect tax they planned before. That would have been contrary to the promises made by PM Nakasone during his campaigns. These contradictions were justified by Nakasone’s unpopularity inside his own party, the LDP. Instead, he sought his popularity

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<sup>10</sup>Christopher Wood, *the Bubble Economy, 1992* (Vermont and Tokyo, the Charles E. Tuttle Company, Inc., 1990), 161.

<sup>11</sup>Junto Kato, *The Problem of Bureaucratic Rationality* (New Jersey, Princeton University Press, 1994), 156, 157, 158, 159 and 160.

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directly from the people, hence, his opposition to new indirect taxes and favor for fair income tax.

Despite the sensitivity related to tax reforms, the political world and the bureaucrats have achieved major tax reforms; this has facilitated numerous reforms to be implemented. One of them is the antimonopoly law which was adopted to ensure a more competitive market; monopolistic companies were eliminated to promote equilibrium.

Lastly, we understand that it was common to play on domestic legislations regarding foreign businesses penetration in Japan during the nascent industrialization phase starting in the early 1960s; in today's terms, that would be called protectionism. At the time, these were necessary regulations but disappeared with the maturing of the industries to a degree that internationalization of the market was not a threat.

**III. The limits of the 1960 system<sup>12</sup>**

Three decades after the end of the occupation, many policies had become outdated, especially so by the end of the 1970s. The high government support to targeted industries which were needed for the quick reconstruction of the country such as noted with the priority production system in chapter II, were no longer productive or appropriate, yet the Bank of Japan still allocated special funds and subsidies to industries operating in those privileged areas. In the long run, such use of government funds over-empowered bureaucrats and encroached on the autonomy of the business world. The long-standing position of bureaucrats earned during a two-digit growth rate could not withstand criticism when the country faced protracted economic slowdown. The recession came partly as a result of several years of collision between politicians and bureaucrats being seen to adversely affect business well-being. They were more involved in the business in ways which sometimes were not advantageous for the companies themselves. After Japan became an industrialized country, more sanitation policies had to be implemented. This could be better realized by less government interference. Greater autonomy for industries would hasten preparedness for being open to foreign competition and becoming a market economy. In this regard, for instance, the government lost its monopoly over credit allocation to private businesses.

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<sup>12</sup>Kitaoka Shinishi, *The Political History of Modern Japan: Foreign Relations and Domestic Politics* (Tokyo, Yuhikaku Publishing Co., 2017), 161.

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In addition to that, when Japan caught up with industrial countries in the late 1970s and early 1980s, many structural changes were needed in order to penetrate international markets. In 1983, the Economic Planning Agency proposed that the government loosen import regulations. This would allow local businesses to compete on a level playing field in foreign markets while conversely accepting similar parity inside Japan. Economic barriers were on the one hand preventing free trade in Japan, while on the other hand affecting access for exports especially to other developed countries. The new dynamic for Japan was to take the lead initiative of the industrial world (The Maekawa Commission Report<sup>13</sup>).

Many observers said that Japan needed to comply with the true reality of the market economy. Some went far so far as to propose the dissolution of finance support altogether. The government interventionism should be limited in its proportions. This is where Wood's recommendations came to be seen as comprehensible and appropriate.

#### IV. The high economic growth and the bubble era

1. **From developing to developed Japan:** From the 1950s to the early 1970s, Japan recorded the fastest growth in the world with an annual average of 10%. Nakamura called it “*from mere reconstruction to technological innovation*”.

As an illustration of such innovation, Sony was able to leap from being narrowly focused on military transistors to being broadly focused across the spectrum of households use (Nakamura). Several things could help explain this. A synchronicity of mutual efforts coming from all the main actors. The people, the decision-makers, the industries, the governments and the politicians all made it possible.

The international trend also was in favor of Japanese economic growth. According to UN statistics, world trade tripled, increasing by an average of 7.6% annually from 1955 to 1970 (Nakamura, 1995<sup>14</sup>). These factors corroborated the globalization of the economy and sustained the two-digit growth of Japan.

2. **The Bubble:** Chapters II and III explained how Japan adopted several reforms to clean up its business environment. However, some misconducts still persisted, and such corruption still needed to be purged. In order to do so, Japan revisited its sources. On September 22, 1985, the finance ministries of the five most advanced economies in the world (USA, UK, France, Germany and Japan), signed a joint agreement under

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<sup>13</sup> The Maekawa Commission Report (published on April 7, 1986), 102.

<sup>14</sup>Takafusa Nakamura, *The Post-war Japanese Economy: its development and structure 1937-1994*, (Tokyo, University of Tokyo Press, 1995), 59.

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the name of the Plaza Agreement. This would tackle inflation in the USA by making it more difficult for foreign countries to export there, while making it easier to import. The consequence on Japan was a high appreciation of the yen against the US dollar, up to fifty percent in value. As a result, in the late 1990s and early 1991, the so-called ‘*lost decade*’ started to take hold. Unsustainable speculative policies could not match the needs of the people.

Consumption goods increased sharply especially, food and energy. Behind the downturn lay, “*unprecedented levels of debts...render central banks and monetary policy ineffective*” (Wood, 1992<sup>15</sup>). Property prices skyrocketed. Fraudulent behaviors were frequent (Fujinori’s case<sup>16</sup>). Banks at that time, lent money without insisting on the capacity/quality of the borrower, as famously explained by the Nobel Prize winner Paul Krugman. According to the same source, the companies were spending in unnecessary and non-profitable business areas such as new buildings, dormitories, and leisure facilities. Vogel declared that there was a deal between security firms and LDP officials in offering housing in return for political favors.

Companies employed risky investments to attract new employees. For instance, offering housing and facilities as strategies to recruit because of the high cost of housing. As acquiring land was a huge financial burden for the company itself, this deepened the financial deficit. In 1989, Japanese companies spent 13.5 trillion yen of good money solely on land acquisition and insurance companies suffered the most. Therefore, the Nikkei lost half its market value (Wood, 1992<sup>17</sup>).

With the Lockheed Scandal<sup>18</sup> still fresh in people’s minds, the bubble confirmed and served to envenom the allegations of fraudulent behaviors and those misconducts plunged the economy into a protracted stagnation stage.

Despite there being as many scandals as there were, the political and administrative committed responses succeeded in steering a course through the trouble. The bursting of the bubble economy undoubtedly hit Japan severely, even so, the sustainability of the economic model proved resilient and strong enough to survive the incredibly turbulent moments.

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<sup>15</sup>Christopher Wood, *the Bubble Economy, 1992* (Vermont and Tokyo, the Charles E. Tuttle Company, Inc., 1990), 177.

<sup>16</sup>Wood, *the Bubble*, 141.

<sup>17</sup>Wood, *Ibid.*, 182.

<sup>18</sup>The Lockheed Scandal is one of the biggest international bribery scandals which involved many politicians including some in Japan.

## V. The international shocks and the economy of Japan:

1. **Vulnerability to unexpected changes:** As the Japanese economy highly depended on the outside market; it is obvious that many external phenomena affected it as well. Chapter IV mentioned that Japan benefited from international trends that enabled it to increase its share of the world market. Naturally, the flip side was that the economy was also dependent on international postures especially from the American side. Nixon's 1971 decisions to stop the convertibility of the dollar into gold, and to impose higher taxes on imports meant unprecedented consequences on Japan.

Also, the 1973 Arab-Israeli conflict had enormous ramifications for three quarters of Japanese industries' fossil fuel supplies especially the steel and petrochemical sectors which relied on exports from the Middle East (Nakamura, 1995<sup>19</sup>). Oil prices went up exponentially. As a result, commodities' prices also suddenly followed, and stocks of products were insufficient because of high demands. Panic in domestic purchase created rampant inflation, yet again.

The government and the Bank of Japan responded by tightening the monetary policies to contain the inflation. As unemployment rose, it led to a tragically high rate of suicides, and this action eventually succeeded in bringing inflation under control, it meant an end to the period of rapid growth. Instead, Japan entered recession, with the yen devalued.

A similar crisis happened during the rise of the Iranian revolution in 1979-1980 with the hostage crisis with USA. The USA government pressured Japan to stop purchasing Iranian oil as a retaliatory measure, yet Iran was Japan's main supplier.

2. **Resilience to crises and policy implications:** After the oil crisis, Premier Ohira initiated the Pacific Rim Policy which included South Korea, China, East Asia and Australia. Japan supported the economies of those countries in return for raw materials necessary for the sustainability of its own growth.

In 1990, in order to contain real-estate prices, the MOF issued "**real estate loan restrictions**" aiming to have monthly statements of companies. These measures brought a stop to the high speculation.

Also, as growth continued through the 1960s, 70s, and 80s, Japan had to progressively reduce government subsidies and increase national revenue. Issuing bonds to finance

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<sup>19</sup>Takafusa Nakamura, *The Post-war Japanese Economy: its development and structure 1937-1994*, (Tokyo, University of Tokyo Press, 1995), 213.

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deficit for construction was no longer productive economic policy. At the same time, Japan depended too much on export income which was subject to unpredictable changes. In order to reduce subsidies, many structural reforms were implemented. The government made a point of definitely stopping its restriction policy toward private competitors. Between 1985 and 1987, the Nihon Denshin Denwa Kosha (NTT), and Nihon Sembai Kosha (Japan Monopoly Corporation) (Suleiman and Waterbury<sup>20</sup>) and Japan Railways were privatized. In 1989, to increase national revenue, 3% consumption tax was introduced (Beasley, 1990<sup>21</sup>).

#### **VI. The role of political parties in the transformation of Japanese economy:**

The political arena in Japan is the one most responsible for sustaining its stability. The Liberal Democratic Party (LDP) has largely been behind the Japanese miracle. The LDP party has unquestionably shaped the Japanese economic reforms that have succeeded for the last three decades. Even though the party went through some difficult times such as with the Nixon Shock, the Oil crisis, the Lockheed Scandals<sup>22</sup> or the bubble, the government response on each occasion was such that none of them unseated its popular votes.

The agricultural reforms in favor of farmers assured their votes at least in the 1960's.

However, growing urbanization as consequences of high industrialization might bring the LDP to shift its policy toward citizens of urban areas who represented 45% of their votes as of 1980. High protection of agriculture (farmers) could come to adversely affect these votes.

Despite the electoral argument changing, the uniquely harmonious interplay between Japan's triumvirate of bureaucracy, business and politics still prevails. No one wants a drastic change. Jr. R Brown put it in these terms: "*politicians in Japan indicate little real interest in a fundamental change in the power structure*". As commonly said, we do not change a team which wins.

#### **VII. Japan's uniqueness:**

Along the path of Japan's economic boom, exist a series of literatures leading to understanding how such progress was possible. From a western (US) economic-based

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<sup>20</sup>Ezra N. Suleiman and John Waterbury, *The Political Economy of Public Sector Reform and Privatization*, (Colorado and London, Westview Press Inc., 1990), 165.

<sup>21</sup>W.G. Beasley, *The Rise of Modern Japan* (Vermont and Tokyo, the Charles E. Tuttle Company, Inc., 1990), 266.

<sup>22</sup>The LDP lost votes up to a record low of 41.8% due to that crisis.

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model, Japan ended up departing significantly from what the Allies plan had earlier envisaged. Japan's economic system was getting away from "*liberal principles while serving capitalism*" said one scholar.

For example, the USA antitrust model could not prevent the zaibatsu<sup>23</sup> prevailing, while the Japanese *kaizen*<sup>24</sup> also did not work in the US until major changes occurred. The shareholding companies persist in contemporary Japan albeit under the Keiretsu<sup>25</sup>.

According to Harshal Singh, in the 1970s, Japan already was labelled by its success story in industries related to electronics, steel, watches, shipbuilding, cameras and autos. They outclassed US industries in those fields. As with the rest of the world's specialists, Singh wanted to know how such a success was possible. Many answers were possible among which he found that Japanese employees have full loyalty to their companies. His findings also outlined the low cost of wages, how the policy framework fits business opportunities, mass production and export, the depreciation of the Yen and high quality-control.

It is obvious that the life-time employment policies and the seniority system also contributed to differentiating the business environment of Japan from others. Although this system has its pros and cons, it showed unity in Japanese business culture. Once a company recruits, usually new graduates, the new employee will serve that business entity up to retirement. This means that an employee imbibes the philosophy and values of the company. Their fates are enmeshed such that if the company fails, the employee also fails. However, if there is a bright future, the employee is successful as well. This policy encourages the workers to assimilate the challenges of the company without any reservation. Also, the risk of being fired is almost nil compared to other systems. Of course, seniority provides more wisdom and more formal and informal advantages. This system also has the merit of providing more stability in the company while enhancing loyalty. It underlies the cost of training new employees because the high-level positions go directly to the most experienced seniors. Lastly, R&D continuity is easier with stable employees rather than shifting teams.

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<sup>23</sup>Zaibatsu were rich family-owned business conglomerates created in 1868 and dissolved in 1945 by the Allies Powers, Hidemasa Morikawa, zaibatsu, *The Rise and Fall of Family Enterprise Groups in Japan 1992* (Colorado and London, Westview Press Inc., 1990), 237, 238 and 239.

<sup>24</sup>[Brunet, Adam Paul; New, Steve: kaizen is "never-ending journey towards quality and efficiency"](#)

<sup>25</sup>[Keiretsu replaced Zaibatsu and has many similarities regardless of family ties, San José State University](#)

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Moreover, Japan's uniqueness is also found in its pacifism policy as a whole. With the Peace and security treaty with the USA, Japan has been able to save huge real costs and resources by being under the US security umbrella. These resources have been allocated to priority economic sectors.

Lastly, unlike most of the industrial countries, Japan succeeded in being a global economic power without interfering in the domestic affairs of its partners. This gave respect to Japanese corporations everywhere.

Also, Japan has been able to distinguish its business model from that of the western world along with its history. While a founder of a company owning most of the shares is common in western Europe and the USA, Japanese firms have a different approach. According to Koji Matsumoto, only 23% of individual companies are held by the founders. The founder of Matsushita Electric Industrial Co., Mr. Konosuke Matsushita, possessed only 2.1 % of shares from his own company but had an important influence upon decision-making because of his exceptional skills. He concluded that corporations are so independent in Japan that they have "*control over the shareholders*" themselves. Richard Pascale and Anthony Athos believe that Japanese businesses understood better the shared values, and the cultural and social aspects of employees of the company more than their US counterparts. They realized that US companies do not focus on the employees' personal life but only on business relationship and performance. The Japanese corporates take care of all aspects entering in human being interplay with the rest of society. They acknowledge and get involved in those realities and give them a particular place in the work environment so that the job respects the culture and facilitates a better integration of the employee in the work. Kenichi Ohmae said that US focus much more on '*analytical framework*' while vagueness is accepted in Japan. The first gives privilege to fast decision-making, while the latter focuses on decision-making for long-run consequences.

The high-quality control and innovation are the core of "*Made in Japan*". Made in Japan is a worldwide respected "brand". It strongly implies quality which is also integral to corporate culture in Japan.

### **VIII. Applying the Japanese model in Mali:**

From the foregoing, it can be seen that any attempt to duplicate the Japanese model in another country would not be a simple matter. First, although Japan is a country of diversity in some regards, it is almost a homogeneous society, one in which people share the same

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values, the same language and the same culture. Few countries in the world have such unity in terms of a population's interconnectivity.

Second, for its survival, environmental and climate constraints pushed Japan to continuously innovate in order to counter the dire reality of nature's misfortunes.

And lastly, Japanese governments have prioritized peace and domestic wellbeing more than other things. The wounds of WWII were so profound that no one dare envisage a repeat experience. Business spirit overtook any other ambitions. Despite the controversies around article 9 and the security alliance with the US, Japan is unique in terms of foreign policy.

Nonetheless, Mali can learn much from Japan's experience, and several aspects could be brought into play that would work to enrich Mali. How does it work?

For example, consider how *bureaucrats and government* in Japan had important roles to play in the economy especially in terms of regulation. Thus, in Mali, government interventionism ought to be very limited. While the private sector is still under government influence, government sponsored business should nevertheless be limited to regulatory measures and the setting of priority objectives. The *priority production* style is a good case for this change. Both government and private networks must finance R&D activities related to priority materials. As yet, businesspersons in Mali do not prioritize R&D.

A second aspect is the importance of reducing the military's involvement in the daily activities of the administration. This would further democratize the system and that, in turn, would protect against belligerent mindset. Currently, too many militaries are assigned to ministerial positions.

*Life-time employment* as found in Japan can be applied to Mali in that way if the companies accept to hire newly graduated students. This will significantly reduce unemployment, but also provide more qualified personnel. The current situation of Mali prioritizes experience over everything, while the schools deliver diploma which are not demanded in the employment market. Engineering and computer science studies should be top priority sectors, to be sponsored by government subsidies. There is a strong need for Mali to reform its *education system* and adapt it to the needs of the country.

Mali can also learn from Japan's mistakes. For example, by promoting life-time employment while removing seniority based-pay in favor of merit-based performance. This would fit well in Mali with the spin-up model where everyone can do each other's jobs.

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In terms of *economy*, Mali would be better to embrace a sovereign currency, instead of the current one (CFA) upon which it does not have any control. The prices of commodities are very volatile, and inflation is always rampant. This must be settled before adopting any monetary policy.

The Malian authorities need to incentivize and sustain R&D which is one of the key tools toward the well-being of the people, especially to combat poverty and create jobs.

*Land reform* is one of the prerequisites for social justice. At present, most of the land is owned by rich people who do not live in the rural areas.

Lastly, the political arena in Mali needs to work on practical cases as the LDP did with its voters. Votes in Japan reflect the level of economic transformation the party has succeeded in implementing. In order to do so in Mali, political parties must encourage bureaucrats to join their positions so that policy conception would reflect the real situations of the people. As Kitaoka Shinishi noted, ***‘the more former bureaucrats entered the LDP’s ranks, the more the party’s ability to develop policy increased’***<sup>26</sup>. The LDP were able to catch the issues of all the sectors of society, and then bring adequate solutions. For this reason, nearly no one would want to risk changing to another party.

Up to now, votes in Mali are based on individual influence not as a result of personal or group achievements. Big political groups in Mali such as ADEMA, URD, or RPM could introduce the same philosophy in their political agendas and on those grounds win elections while serving the people and the parties’ interests.

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<sup>26</sup> Kitaoka Shinishi, *The Political History of Modern Japan: Foreign Relations and Domestic Politics* (Tokyo, Yuhikaku Publishing Co., 2017), 166.

*JICA-IUJ case material series***Summary:**

This paper is divided into eight chapters. The first chapter deals with the policies which brought about stability in the recent history of Japan from the postwar era until 1993. This chapter allows the reader to understand the context in which prosperity became possible in Japanese society. Mentioned are the core policies that resulted in the longtime peace and stability of Japan.

The second chapter outlines the set of measures the government undertook during and after the occupation time. It focuses on the key reforms implemented in order to rebuild the economy which was destroyed during wartime. Then, it provides concise information related to reforms implemented in order to further enhance an industrialized country's progress from strength to strength.

After becoming a confirmed developed country, many of the policies which brought the recovery and then further growth became obsolete. Chapter three examines the necessity for Japan's policy makers to steer national legislation in order to navigate adaptation to the market economy. This chapter draws attention to some of the most needed changes in law, in order to ensure compliance with international markets.

The fourth chapter alerts us to the impacts of certain misbehavior which occurred while Japan emerged as a prosperous country. It depicts the difficulties encountered as a result of inappropriate practices which misled the economy to financial downturn.

Chapter five presents the weaknesses and strengths of Japan's economy with regard to outside partners. In particular, it addresses the vulnerability of Japan in depending on imports of raw materials for its industries while, at the same time, relying on exports to other markets to sell its finished goods. This makes Japan over exposed to international shocks and tensions.

Chapter six points out how the involvement of political parties, especially some particular aspects of the LDP, were pivotal in making Japan a stable and successful country within only a few generations.

The seventh chapter provides some tentative pointers to features that characterized Japan and which also increased its prospects for economic development.

Lastly, chapter eight tries to extrapolate the Japanese model to the situation in developing countries, in particular to Mali in Africa, the writer's own country. With few exceptions, this showed that most of the policies Japan employed to build a better economy could feasibly be implemented in Mali as well.

*JICA-IUJ case material series***What are the learning objectives?**

The main learning objective is to show how important the role of stability was in fostering the economic success of Japan. The reader will be able to see the implication of different actors and the challenges around them. The Japanese system succeeded despite encountering difficult situations, situations common in many developing countries. The objective in examining these issues is to show that almost anything can be overcome when there is sufficient synergy of actions.

Also, the reader can see the government's gauged response to external shocks with appropriate policy changes and adaptability. Lastly, the study analyzes the strengths and weaknesses of current Japanese approaches in African countries.

This note intends to provide some elements for students who want to know more about Japanese ministries' strategies during the post war time. The details here are of course, not exhaustive but provide an overview of policy changes implemented in post war Japan. And lastly, this study offers insight into which practices made Japan's approach successful. Replicating these practices so some degree might be feasible in accordance with a country's situation, but the fundamentals hold true. These include dealing with corruption, making reforms, prioritizing industries and having ambitious political programs. Therefore, the reader should be able to answer the following questions:

What is Japan's uniqueness? What changes were necessary to boost the economy? How was the Japanese economic success possible? How resilient is the Japanese economy to external shocks? What are the advantages of the Japanese system? What can other countries learn from the Japanese economic model? How can Mali implement similar reforms?

1. What are the characteristics of Japan's postwar reform policy?

The main characteristics of Japan's postwar reform policy are: first, the Japanese leadership had throughout a clear vision of what they wanted; second, they succeeded in coordinating their policy implementation even under different governments, third, despite divergencies in opinions, all the actors succeeded in agreeing on which sectors to prioritize in order to drive efforts and resources to these sectors.

2. What aspects of Japan's reform policy could be applied for Mali and in what way?

The key aspects which could be applied to Mali can be as follows.

In order to develop an economy such as in the Japanese case, Mali needs above all policy cohesion. Reforms must be uniting factors not discriminative. The leadership must provide an environment of justice and equality in order to promote more social unity. The education for

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example could be in response to the job market, and more engineering fields should be open in this regard. This would lead to more political stability and a clear vision.

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