Chapter4 1955-1959: Fiscal and Monetary Policies for Independence and Expansion

1. Background and Economic Policies

Postwar Japanese economic growth was clearly dependent on an expansion of world trade. Economic policy during the late 1950s sought to build a framework which would allow smooth (albeit belated) entry into the international economy and maximize the existing international conditions.

In a speech on fiscal policy delivered on January 22, 1955, Minister of Finance Hisato Ichimada summarized the achievements of the reconstruction policies that had driven the economy during the first half of the decade. Noting that the postwar economy had been rebuilt rapidly and that production and the national income were now above their prewar levels, Ichimada described a situation in which “everyone has worked wholeheartedly toward the restoration of production and the improvement of consumptive activities, but this has resulted in only a superficial expansion of economic power, while structural weaknesses, including backwards technology, bloated management, disorderly industrial structures and extensive dependence on debt by corporations, have remained.” The Japanese economy could only achieve stable expansion within the context of international trade and interchange. With the world economy, led by Europe, moving in the direction of liberalization, Japan would have to make improvements in its economic structure if it wished to join the world economy in a manner commensurate with its station. During the postwar period and the subsequent years of special procurement demand resulting from the Korean War, Japan's economic structure was inward-looking, and its economic policy, guided by an awareness of the inflationary bias in the economy, sought to shift the weight in external affairs toward construction of a structure that would be in line with the basic international trends toward liberalization. In other words, the goal was to achieve a balance-of-payments equilibrium that was not dependent on “special procurement demand” from the Korean War. The name given

to this was “economic independence.”

As far as the domestic economy was concerned, the objective of policy was to achieve the “economic soundness” (sometimes called “economic normalization”) that would make these external goals possible. Given Japan's economic weakness, this meant that policies and programs would have to be developed and administered in a methodical and comprehensive manner. Policy in the past had lacked overall cohesiveness and was often little more than a collection of stop-gap efforts. This would now be changed. External liberalization was given the highest priority and made the standard to which all other policies were expected to conform. Domestic policies aimed at achieving “economic soundness” went by the respective names of “fiscal soundness” and “monetary soundness.”

It was at this time that the first macroeconomic plans containing broad policy guidelines were announced. The first, published in July 1955, was the “Five-Year Economic Independence Plan.” There were two reasons for the plan's introduction in 1955, the year in which the “postwar reconstruction” was generally deemed to have been completed. First, economic management was becoming better organized, and the conditions were in place for it to operate from a longer-term perspective; and second, “reconstruction,” an obviously unifying slogan, had been achieved, and a new target was needed both for the administration of what was still a frail economy and for the effective allocation of limited resources.

The slogans for the Five-Year Economic Independence Plan were “economic independence” and “full employment.” We might note that the latter would be a slogan for all macroeconomic planning up to and including the Income-doubling Plan of 1960. The unemployment rate was ostensibly not especially high, but there was a large “latent unemployed” population in rural agricultural communities, which was compounded by worries that jobs would become more difficult to find as the postwar baby-boomers began entering the workplace in the 1960s. Providing jobs for these segments of the population was equal to rejoining the international economy in terms of the emphasis placed on it in economic policy. An ability to

Table 4-1　Economic Plans

Economic Plans	Compilation	Cabinets	Period (Duration)	Goals (Catch line)	Growth Rate (%)		Industrial Production (%)		Consumer Price (%)		Current Account (100 million $)	
					Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual
Five-year Economic Independence Plan	July 1955	Hatoyama	1956-60 (Five years)	Economic Independence, Full Employment	5.0	9.1	7.4	15.6	-	2.0	0	-0.1
New Long-term Economic Plan	December 1957	Kishi	1958-62 (Five years)	Maximal Growth, Improvement of Living Standard, Full Employment	6.5	10.1	8.2	13.5	-	3.5	1.5	-0.2
Income-Doubling Plan	December 1960	Ikeda	1961-70 (Ten years)	(same as above)	7.2	10.9	10.5	13.8	-	5.7	1.8	23.6
Medium-term Economic Plan	January 1965	Sato	1964-68 (Five years)	Correction of Distortion	8.1	10.8	9.9	13.6	2.5	5.0	0	14.7
Economic and Social Development Plan	March 1967	Sato	1967-71 (Five years)	Balanced and Fulfilling Development of Society and Economy	8.2	10.9	10.2	13.2	around 3	5.7	14.5	63.2
New Economic and social Development Plan	May 1970	Sato	1970-75 (Six years)	Construction of Livable Nation through Balanced Economic Development	10.6	6.0	12.4	3.6	4.4	10.9	35	1.3
Basic Plan for Economy and Society	February 1973	Tanaka	1973-77 (Five years)	Simultaneous Realization of Fulfilling National Welfare and Promotion of International Cooperation	9.4		10.0		4 (avg.)		59	

Notice: Cabinets are the cabinets in charge of preparation.
Source: Isamu Miyazaki, "*Showa 50 nendai zennki Keizaikeikaku Kaisetsu*"

absorb a growing work force required a consistently expanding economy. The solution was consequently to be found in growth policy, and a policy framework was established that would permit achievement of this goal.

Rising exports produced a burst of economic activity in 1956 that served as proof that Japan had weaned itself of its dependence on “special procurement demand”, and was ready to join the international economy. This news was immediately welcomed as a large step toward the achievement of “economic normalization” and a new phase of economic reconstruction. It quickly led to overheating and a deterioration in the balance of payments in the following year, 1957, however; once again underscoring the essential frailty of the economic structure and the need for “economic soundness.” This was a pattern that would continue throughout the late 1950s. Strengthening the domestic economic structure was a long-term policy goal, but the defining near-term principle was to avoid overstimulating the economy, to keep currency values and economic conditions stable.

Table 4-2 Outline of Economic Growth (1953-59)

Year	Economic Growth Rate		Growth Rate of Private Capital Investment (%)	Corporate income / National Income (%)	National Gross Expenditure per capita (Real) (*in* thousands of[yen)
	Nominal (%)	Real (%)			
1953	12.6	5.7	15.7	9.1	128.1
1954	11.0	6.1	4.3	9.8	134.0
1955	10.1	9.1	△ 3.2	7.9	144.5
1956	12.8	8.0	39.0	8.7	154.5
1957	13.9	8.0	25.1	12.1	165.3
1958	4.9	5.4	△ 4.7	10.5	172.7
1959	12.2	9.2	16.9	10.6	186.8

When the Five-Year Economic Independence Plan began to advance, it became apparent that the Japanese economy had more growth potential than had originally been thought, but it was also hampered as expected by quick overheating during expansionary phases. The policy-makers recognized a need to make better

provisions for stability and structural reinforcement in light of the newly expanded economy, and they consequently revised the Independence Plan into the "New Long-term Economic Plan," which took effect in fiscal 1958. The slogan for the New Long-term Economic Plan was "maximum growth," a slogan that would be carried over into the Income-doubling Plan that succeeded it.

Industrial planning involving active governmental intervention in the resources and products of the private sector was a major component of both the Five-Year Economic Independence Plan and the New Long-term Economic Plan. The main tool employed was direct regulation, making use of the controls over goods and foreign exchange that were carried over from the reconstruction days. In this sense, the macroeconomic policy of the period was a continuation of the rigidly controlled structure (representing, in practice, the almost complete insulation of the domestic economy from international influences) of the initial postwar period.

2. Sound Fiscal and Monetary Policies

1) Fiscal and Monetary Policies under the Five-Year Economic Independence Plan and New Long-term Economic Plan

Under the Five-Year Economic Independence Plan, it was the role of sound fiscal policy to provide stable economic management that would, in turn, lead to the stability of the economy as a whole. Achieving "fiscal soundness," in this case, included holding fast to the idea that no bonds would be issued under the General Account, a taboo that had been maintained since the days of the Dodge Plan. The size of public finance had begun to contract with the "Trillion Yen Budget" of 1954. The conditions for fiscal soundness had therefore been achieved; they needed only to be maintained while spending programs provided the support required by economic policy. There were those who were of the opinion that a certain amount of expansion would be required to provide for post-reconstruction economic policy, but the official decision was to maintain current levels for the foreseeable future. This was done from the perspective of eliminating any fiscal factors that might lead

to a reignition of inflation. The ultimate goal was to achieve an "optimum scale" of public spending, but since current spending levels were roughly equal to the prewar levels as a percentage of national income, maintaining those levels was in reality basic to fiscal administration.

The tax burden was considered high in real terms. Although not necessarily high in comparison with other countries, it was high in comparison to prewar levels and to the standard of living, especially with the Engel coefficient taken into account. Each year, therefore, implementing tax cuts at either the central or local level became a major policy issue. On the other hand, new demands were also being made on the country's coffers and, of course, bond issues were out of the question. In practice, therefore, the tax burden was adjusted on an annual basis with the objective of maintaining it at current levels as a percentage of total revenues. In the figures of the day, the combined central and local tax burden was 19-20 percent. Though there were calls for large tax cuts, these were not incorporated in the near-term goals of economic policy.

The priority was thus on eliminating factors threatening disruption from a fiscal standpoint. The size of the General Account had to be strictly controlled in relation to the demand for funding, resulting in a prioritization and rationalization of expenditures. High-priority long-term spending areas included the following: 1) public works; 2) food production; 3) housing construction; and 4) social security. The FILP and private-sector funding helped to finance public works, housing construction and social security. Social security was given a special priority and identified as an area in which increases would be permitted, if necessary. Growth in spending on public works and food production was to be kept within the national income growth rate. At the same time, however, consumption expenditures were rationalized and reduced. The policy was to maintain defense spending at a level the economy could bear, but inasmuch as growth was envisioned for other spending areas, real declines were expected for the military.

The overall goal of the New Long-term Economic Plan was to sustain high

Table 4-3 Social Security Budget breakdown (1955-59, after Supplementation)

(In thousands of yen)

	FY1955	(%)	FY1956	(%)	FY1957	(%)	FY1958	(%)	FY1959	(%)
Welfare Benefit	37,280,598	37.5	39,460,617	33.1	36,696,371	31.2	39,614,070	30.4	45,387,825	28.9
Child-care and Others	7,371,124	7.4	7,539,572	6.9	9,089,570	7.8	9,584,391	7.4	10,272,086	6.6
Social Insurance	12,387,493	12.5	17,138,819	15.6	21,754,911	18.5	23,784,611	18.3	31,008,876	19.7
National Pension	-	-	-	-	-	-	-	-	11,047,909	7.1
Unemployment Relief	28,524,000	28.7	34,797,000	31.6	34,362,000	29.2	40,457,318	31.0	41,924,000	26.7
Tuberculosis Control and Mental Health	14,020,728	14.1	14,410,127	13.1	15,984,318	13.6	17,041,829	13.1	17,845,203	11.4
Total	99,583,943	100.0	110,346,135	100.0	117,887,170	100.0	130,482,219	100.0	157,485,899	100.0

Source: Ministry of Finance, Budget Statistics, FY1962, pp.138-39

growth rates, while stabilizing the economy. In achieving this, the government wanted to rely on the private sector and to avoid the need to resort to direct controls wherever possible. Private-sector firms, however, were thought by some as still lacking the capacity to make autonomous adjustments. The general perception was that the Japanese economy was frail, and burdened with a latent inflationary risk. The policy-makers consequently attempted to provide the maximum amount of funds that could safely be injected into the economy under those conditions, and the government left itself room to take appropriate measures should the interests of private companies and those of the country as a whole come into conflict.

The primary job of fiscal and monetary policy was to achieve the first half of the plan's goals: to stabilize currency values. In the achievement of the latter half, fiscal and monetary policy aimed at encouraging the flow of funds to basic industrial sectors, though in the relationship between fiscal policy and finance, the focus was to be on the growth of private-sector funds as the driving force behind economic development. Fiscal policy was to play the role of overall coordinator.

The switch to the New Long-term Economic Plan, with its slogan of “maximum growth,” did not therefore signal a change in the attitude of the policy-makers concerning the size of public finance or the need to achieve fiscal soundness. If anything, the bias was toward a relative shrinkage of the size of public finance in comparison to the national economy. A priority was placed on using tax breaks at both the central and local levels to encourage the accumulation of private-sector capital. In reality, new demands on the-country's coffers would keep the size of public spending vis-à-vis the economy more or less constant, again with no fundamental change in fiscal management. Achieving maximum growth, on the other hand, would increase the need for adjustment and coordination of economic management, and public spending was, indeed, forced to play a relatively large role in stabilization and coordination, since the normalization of finance (the financial structure was acknowledged as being abnormal and in need of reform to enable it to

provide proper monetary regulation) and the use of the financial sector to supply needed funding were the priorities in the policy structure.

With this larger role, however, came the need to neutralize disruptive factors on the fiscal side. The ideal official soundness was maintained, as was the taboo on bond issues under the General Account. The experiences of the 1958-56 period, when overlapping private and government investments exacerbated swings in the business cycle, reminded the policy-makers of the frailty of the economy and of the need for prudence in the administration of public finance. The New Long-term Economic Plan targeted a relative reduction of the tax burden, viewing the expansion achieved under the Five-Year Economic Independence Plan as justification for giving more space to the private sector. One of the policy issues raised by this involved finding ways to adjust the relative weightings of direct and indirect taxation to correspond to the changes in the expenditure structure.

2) The "One Trillion Yen Budget" and the "100 billion Yen in New Spending / 100 Billion Yen in Tax Cuts" Budget

Public finance (the General Account) grew at a rate of 9.6 percent during the late 1950s, far slower than the 12.8-percent rate recorded by (nominal) GNP and an indication of the fiscal conservatism that was maintained throughout this period. The late 1950s are notable for several policies, among them the continuation of the "Trillion Yen Budget," large tax cuts and the allocation of surplus funding to reserves. We should note, however, that the growth of Japanese public finance was high by international standards. The United States posted growth of only 4.3 percent in the late 1950s; the United Kingdom of 5.5 percent; and France of 8.7 percent.

Fiscal years 1955 and 1956 saw a continuation of the "One Trillion Yen" austerity budget of 1954. The level of one trillion yen itself was not particularly significant in relation to the economy, and it was stretching matters to maintain it for three years. Having a predetermined ceiling did help rein in the absolute value of public finance, however, and, because shares of the expense budget had to be

adjusted within that ceiling, it paved the way for a realignment of the fiscal structure after the peace treaty. The one trillion yen ceiling was not so much a general austerity package for the economy as it was a promise to hold down public finance in exchange for active investment by the financial sector. Public finance in the narrow sense was, indeed, administered on an austerity basis, but the Fiscal Investment and Loan Program (FILP) was used to provide fiscal services in a broad sense.

Between 1956 and 1957, investment in public corporations was transferred from the General Account to the Special Account for Industrial Investment. While the FILP began to cover more territory in the late 1950s, however, its primary source of funding, the Trust Fund Bureau (which, in turn, depends primarily on the Postal Savings system), did not necessarily grow to match it, a situation resulting, during this period, in an increase in both the number of agencies allowed to issue government-guaranteed bonds and the amounts they issued. The FILP became more dynamic in this respect; whereas it had previously merely invested the money that came in, it now actively sought private-sector funds. It was due to this process that the FILP was given the nickname that it still carries to this day: the "Second Budget."

Table 4-4 Tax Burden Ratio (1955-59)

(In ten Billions of yen)

Fiscal Year	National Income	Tax				Social Security		National Burden Rate
		Indirect Tax	Direct Tax	Total	Burden Ratio		Burden Ratio	
1955	6,973.3	746.7	589.1	1,335.8	19.2	229.9	3.3	22.5
1956	7,896.2	862.5	696.6	1,559.1	19.7	261.9	3.3	23.1
1957	8,868.1	986.5	770.0	1,756.5	19.8	311.2	3.5	23.3
1958	9,382.9	1,045.7	728.9	1,774.6	18.9	340.3	3.6	22.5
1959	11,042.1	1,184.6	864.4	2,049.0	18.6	392.2	3.6	22.1

Intentional control of scale was attempted in order to maintain public finance at modest levels. The index of scale, in this case, was the tax burden ratio, which the

policy-makers were determined to keep at a steady level. The lack of any bond issues on the General Account and the small size of bond issues on the special accounts made it possible to maintain the relative size of public finance vis-à-vis the economy by maintaining a steady tax burden ratio. The target was 20 percent. Though this would not be formalized until an interim report of the Tax Commission published on March 25, 1960, tax burden ratios of slightly under 20 percent were maintained throughout the late 1950s.

Thanks to Japan's economic growth, the growth in tax revenues was sufficient to meet spending needs without altering the tax rates; indeed, revenues usually exceeded estimates. (The term “natural increase” is often used to describe this process, even in official government documents, although the definition of “natural increase” is not necessarily fixed.) One of the hallmarks of public finance made possible by these conditions during the high-growth period was that growth in the absolute value of expenditures could be used to meet new demands on the country's coffers, while at the same time leaving room for tax cuts. The most extreme manifestation of this was the 1957 budget (an initial General Account budget of ¥ 1,137.5 billion), which offered “¥ 100 billion in new spending and ¥ 100 billion in tax cuts.” In other words, the government projected a ¥ 200 billion increase in tax revenues, which would be divided evenly between tax cuts and spending increases, thus reducing the tax burden, while providing for appropriate expansion of public finance. This 1957 budget belongs to the “activist” school of fiscal policy, which is why it is all the more notable for also making a show of tax cuts. During subsequent years, this pattern of dividing projected revenue increases between tax cuts and spending growth would be seen again and again, and would contribute to the maintenance of restraint in the relative size of public finance.

Meanwhile, the MOF tried to add more discretion to the budget while at the same time restraining the tendency of public finance to expand. Its strategy was to use “medium-term cyclical adjustment” as a counterweight to economic swings. The idea was not only to divide up revenue increases, but also to set aside some of the

increase occurring during boom cycles to be used to cover spending during busts. In drafting the 1958 budget, for example, the Ministry's policy was to avoid giving the economy unnecessary stimulus by not counting the surplus from the previous year (fiscal 1956) as income. Faced with the choice of setting aside the surplus or using it to cut taxes, the Ministry chose to set it aside, to make funding available for future countercyclical adjustments. The initial concept was to pool the money in a single reserve account that could be drawn down when fiscal policy required more flexibility in order to counteract business slumps. It was an idea that the Ministry had long been mulling over. It proved much harder than expected to set aside reserves, however, now that there really were surpluses to deal with. Much of the ¥ 100.1 billion surplus was required by law to be put into a bond sinking fund. That left ¥ 43.6 billion, which was assigned to the "Economic Base Reinforcement Fund" (to be used to pay for "future" road construction and the like, as warranted by the economic conditions) and a small excess that was assigned to the Small Business Credit Insurance Corporation reserves and the Export-Import Bank of Japan's "Southeast Asia Development Cooperation Fund." (Note that the initial General Account budget for fiscal 1958 was ¥ 1,034.9 billion.) The funds thus set aside were depleted in the following year, fiscal 1959, to fund spending in the face of a revenue shortfall.

3) Cooperation between the General Account and the FILP on Public Works and Housing Construction

The late 1950s saw several new special accounts set up to diversify financing of public works projects. Among these were the Special Account for Specific Multipurpose Dam Construction (1957), the Special Account for Specific Soil Improvement Work (1957), the Special Account for Road Construction (1958) and the Special Account for Special Port Facilities Construction (1959). The Special Account for Specific Multipurpose Dam Construction and the Special Account for Specific Soil Improvement Work were part of a policy to move public works out of the General Account into special accounts. The reason for their establishment was

that Japan was generally lagging behind in its public investment, and it was consequently necessary to distribute money evenly to all areas of public works, but projects in individual areas were not moving forward as quickly as expected during any given year, even though administrative expenses were mounting. The bill for

Table 4-5 List of New Special Accounts (FY 1952-69)

Name	Category	Implementation year (relevant law)	Note
Specific road development	Development	FY 1952 (Law No. 170 of 1952)	Transferred to the Japan Highway Public Corporation in FY 1956.
Reinsurance of loans to fisheries	Insurance	FY 1952 (Law No. 347 of 1952)	
Wooden boat reinsurance	Insurance	FY 1953 (Law No. 77 of 1953)	
Industrial investment	Loan	FY 1953 (Law No. 122 of 1953)	
Export insurance	Insurance	August 1, 1953 (Law No. 79 of 1953)	
Local allocation and transfer tax distribution	Settlement	FY 1954 (Law No. 103 of 1954)	
Economic support fund	Loan	FY 1954 (Law No. 104 of 1954)	Transferred to the industrial investment special account in FY 1967
Opium	Control	FY 1955 (Law No. 31 of 9854)	
Surplus farm products finance	Loan	FY 1955 (Law No. 100 of 1954)	Transferred to the industrial investment special account in FY 1967
Reinsurance of compensation for motorcar accidents	Insurance	FY 1955 (Law No. 134 of 1955)	
Reparations and special obligations	Settlement	FY 1956 (Law No. 53 of 1956)	
Special goods payment	Settlement	FY 1956 (Law No. 129 of 1956)	Transferred to the general account in 1962. Cash was transferred to the industrial investment special account.
Specific multi-purpose dam construction	Development	FY 1957 (Law No. 36 of 1957)	Transferred to flood control
Specific land improvement	Development	FY 1957 (Law No. 71 of 1957)	
Extraordinary construction	Settlement	FY 1957 (Law No. 86 of 1957)	Abolished in FY 1959.
Special national property settlement fund	Settlement	FY 1957 (Law No. 116 of 1957)	Transferred to the special national asset settlement funds
Road development	Development	FY 1958 (Law No. 35 of 1958)	
Specific port/harbor construction	Development	FY 1959 (Law No. 68 of 1959)	Transferred to the port/harbor construciton

Source: Prepared from a list of special accounts on "*Okurasho Hyaku-nen shi* "Appendix pp. 142-146

these two particular projects would ultimately be paid by the local beneficiaries, and the General Account would be reimbursed for the local portion of its expenses. It was therefore decided to transfer the projects to a special account that could borrow money from the Trust Fund Bureau to cover the local contribution. In other words, the local communities had been receiving what amounted to loans from the General Account. This would now be moved to the Trust Fund Bureau/FILP. Meanwhile, the

General Account would continue to spend as much money on the projects as before, thus enabling them to proceed faster. This system was significant in that it opened the way for issuing de facto construction bonds and borrowing money (provided for in the addenda to Article 4, Paragraph I of the Public Finance Law) for specific funds from the special accounts.

The late 1950s were also a period in which road construction advanced rapidly. From the perspective of fiscal policy measures, the creation of the Special Account for Road Construction, which took in funding from all other sources and disbursed money for road works, was particularly notable. Indeed, it was this special account that paid for all the road construction. The concept behind the Special Account for Road Construction was an expansion of the concept behind the special construction accounts established in 1957. Unlike those accounts, however, the road construction account was allowed to borrow to meet general expenses, not merely to cover money that would eventually be paid back by local communities. This marked the first time that the addenda to Article 4, Paragraph I of the Public Finance Law had been applied to general expenditures, and it further established the pattern of utilizing cooperation from the FILP to expand the scale of public works spending. (The Special Account for Road Construction did not borrow for general expenses immediately, however, even though such borrowing was permitted.)

The Special Account for Road Construction became the model for the special project account as employed during the high-growth period. A new law designated revenues from the gasoline tax specifically for road construction. The MOF was opposed to earmarked taxation, arguing that it would impair the allocation and distribution functions of fiscal policy, threatened to damage the tax system, and would serve as a constraint on the budgetary process, but the Ministry was overruled by the Diet. The Dietmen who submitted the bill argued that an extraordinary funding source was needed for reconstruction of roads damaged during the war and for the construction of new roads, and that using this tax would adhere to the "beneficiaries pay" principle. Because of this, the share of public works spending

(other than disaster reconstruction costs) directed toward road construction rose from 28.8 percent in fiscal 1955, to 45.3 percent in 1959, outpacing landslides and

Table 4-6 Public Works Budget Breakdown (FY 1955-1959, after supplementation)

(In thousands of yen)

	FY 1955	(%)	FY 1956	(%)	FY 1957	(%)	FY 1958	(%)	FY 1959	(%)
Soil and water conservation	31,260,663	22.2	32,705,855	23.1	34,435,095	21.0	36,119,434	19.9	47,488,905	19.2
Road development	23,944,701	17.0	26,967,081	19.0	46,427,412	28.3	53,427,623	29.5	79,795,310	32.2
Ports/harbors, fishing ports, airports	6,094,380	4.4	6,886,333	4.9	10,381,149	6.3	12,090,269	6.7	17,226,563	7.0
Forest road and urban development, etc.	4,826,983	3.5	4,937,551	3.5	5,632,392	3.5	6,178,020	3.4	7,938,053	3.2
Agricultural infrastructure development	22,863,534	16.3	24,627,272	17.4	26,768,653	16.3	29,161,343	16.1	32,887,580	13.3
Disaster restoration, etc.	50,690,144	36.0	44,005,704	31.0	39,819,595	24.2	43,454,247	24.0	61,979,548	25.0
Mining damage restoration	1,326,038	1.0	1,313,284	1.0	566,332	0.4	510,230	0.3	534,395	0.3
Adjustments			500,000	0.4	500,000	0.3	550,000	0.3	650,000	0.3
Total	141,006,443	100.0	141,943,080	100.0	164,530,628	100.0	181,491,166	100.0	248,500,354	100.0

Source: Ministry of Finance, Budget Statistics, FY1962, pp. 138-41

water control to become the top public works spending item. The Japan Highway Public Corporation was established in 1956 to meet the urgent need for new road construction by building toll roads in addition to regular roads through the special account. The corporation was eligible for FILP funding, but because it also had revenues from user fees, it was strongly oriented toward the idea of beneficiaries footing the bill. In the intervening years, it has become known as one of the best examples of a successful FILP institution.

In 1955, another representative FILP institution, the Japan Housing Corporation, was established. The purpose of this agency was to supplement local public housing projects, which were limited by local government boundaries, with services extending across boundaries. Rather than just an incorporation of General Account services, it was a new institution for policy administration; rather than just using FILP funds to distance fiscal policy from budget appropriations, it used the system to expand the range of national government activities. The agency's funding came from five sources: 1) investments by central and local governments; 2) borrowings from the government and private sectors; 3) housing bonds; 4) special housing bonds and housing-lot bonds; and 5) rents and sales. The FILP underwrote the borrowings and housing bonds. The agency was notable for its ability to borrow from the private sector, although government policy limited this borrowing to insurance companies and trust banks. The government also promised to mediate loan contracts as required. Special housing bonds and housing-lot bonds were sold to those wishing to purchase housing. In exchange for underwriting the bonds, buyers were granted a priority when agency developments went on sale. (In 1965, the government ceased to invest in the agency. To adjust the agency's costs to allow for the lack of new investment, an “interest subsidy” program was established in the General Account.) There were also other programs for housing construction at the government policy level, including the following: 1) the Housing Loan Corporation, which provided long-term loans for home purchases; 2) fiscal subsidies for public housing construction at the local level; 8) housing construction funded with “rebate

loans" and from other social-policy sources; and 4) housing for government employees. The first three received FILP funding, enabling the FILP to draw on a wider range of investment vehicles as well. Altogether, housing-related funding accounted for a full quarter of the FILP funding, the largest share for any single category.

The late 1950s saw the establishment of other public corporations on the same model as the Japan Highway Public Corporation and the Japan Housing Corporation. An overview of two and a half decades shows that 15 new public corporations were established in the early 1950s, as opposed to nine disbanded; in the late 1950s, 41 were established and none disbanded; in the early 1960s, 39 were established and two disbanded; in the late 1960s, the toll was 22 and 11; and in the early 1970s, it was 13 and 11, respectively. Most of the new public corporations were FILP institutions, which is why the scope of FILP activities was widened by funding primarily from special accounts, government enterprises (former special accounts), and government financial institutions at its establishment in 1953, to a plethora of public corporations and agencies in the late 1950s. Between 1955 and 1959, public works spending grew 1.8-fold in the General Account but 12.7-fold in the FILP; a clear testament to the role the program played.

4) Growth-promoting Taxation

The Tax Commission (originally a temporary body that later became a permanent commission) set the tone for taxation in the late 1950s with a report issued in December 1956. The basic idea was that the tax burden had grown heavier and that tax cuts should consequently be given a higher priority. With the economy growing and natural increases in tax revenues certain, the increases should be used to reduce taxation. Tax cuts, it argued, would serve as an engine to growth by encouraging private-sector savings. The commission also asserted that tax cuts should comprise cuts in the tax rate rather than newly created deductions, the preferred method in the early 1950s which was actually more in the nature of "payment in kind." Behind this proposal was an awareness that the high income tax

rates and steep progression in the system were impediments to people's desire to work or to go into business, and that they had robbed the nation of much of its motivation to improve productivity. During the early 1950s, the policy priority was on stabilizing living standards, which led to the creation of new deductions for various purposes. The commission turned its attention to the need to simplify what had become a complex system and to begin thinking more from the perspective of economic growth. One of its proposals for doing so was to transfer some of the tax burden from direct to indirect taxation. The argument against income taxes was that income levels were flatter now than they had been before the war and that there was potential for damage from income taxes because collection methods could give rise to charges of unfairness. Increased indirect taxation, on the other hand, would restrain consumption and promote savings. The commission considered the establishment of a sales tax to accomplish this, but it did not include one in its report. Finally, it advocated that the special tax breaks that had developed be consolidated and rationalized.

The Tax Commission's prediction proved correct. The natural increase in revenues during the late 1950s was sufficient to fund tax cuts, and the commission's goal of cutting taxes was indeed achieved. Likewise, most of the cuts were in the income tax, with a priority placed on flattening the progression, just as the commission had advocated. There was, however, no significant increase in indirect taxation. The natural increase was large enough to make this unnecessary. As the "¥ 100 billion in new spending and ¥ 100 billion in tax cuts" budget of 1957 illustrates, the government had enough money to cut taxes and increase spending without having to turn to indirect taxation for new revenues. Because of this, the commission's goal of changing the direct/indirect taxation mix was not achieved. The only thing that occurred was a tiny revision of the commodities tax.

The special taxation measures (tax breaks) for specific purposes also remained more or less unaltered from the early 1950s. One notably effective tax break from the late 1950s was the "export income deduction" introduced in 1953, which was

modeled on a similar measure in West Germany. This deduction initially had a limit of three years, but it was held over until it was declared a GATT violation in 1964. Other notable tax breaks during the late 1950s included the "technology export income deduction" (1959) and the "special depreciation schedule for exports" (1961).

Special taxation measures for savings encouragement were not consolidated to the extent the report advocated because they were considered effective in achieving their purpose. If anything, they were actively expanded. In a rather unusual measure, all interest on long-term deposits was declared tax free between 1955 and 1959. This break was supposed to be temporary: it was introduced in July 1955 and was scheduled to end in March 1957. The lawmakers extended it to the end of 1957, however, and then to March 1959. The MOF was not necessarily enthusiastic about exempting all interest income from taxation, and the measure was debated vigorously in the commission. The majority opinion affirmed the principle of "comprehensive taxation." As an interim measure, a 10-percent separate withholding taxation was introduced. In March 1959, a "savings deduction" was passed, retroactive to April 1958 and limited to December 1959. West Germany was again the model. During this period, those who placed a set amount of money into a long-term savings account each month for at least six months would be allowed to deduct 3 percent of their annual savings. The policy-makers were fully aware of the unusual nature of these tax breaks, but they nevertheless chose to place a priority on encouraging savings.

3. The Development of Activist Monetary Policy

1) Monetary Policy under the Five-Year Economic Independence Plan and New Long-term Economic Plan

The objective of monetary policy during the late 1950s was to develop a "sound financial sector." A priority was placed on "financial normalization," which in this case meant boosting savings and capital adequacy, although the top priority

remained on ensuring an adequate money supply because of the general shortage of funding. The major channel for industrial funding was private-sector financing: there was little short-term prospect for internal funding to take over for external funding. Both the Five-Year Economic Independence Plan and the New Long-term Economic Plan affirmed the importance of the FILP, which the policy-makers saw not only as a supplement to private-sector finance but as an independent source of funding.

Some argued that the only way to utilize the scarce industrial funding effectively would be to impose strict controls, but the intention of the Five-Year Economic Independence Plan was to form a structure that could be integrated easily into the world economy. New controls were therefore undesirable; rather, the government would articulate investment policy priorities with which it hoped the financial sector would comply voluntarily. The idea is apparent here that, while (additional) direct controls were not advisable, neither could private-sector adjustments by themselves necessarily be depended on in all cases. It would consequently be necessary to give some consideration to the allocation of funds in actual practice.

The shortage of domestic funding raised the issue of importing capital from abroad. Although no one argued against the need for importing technology - indeed, it was actively promoted - the mood was less favorable when it came to an excessively-easy dependence on foreign credits to supplement domestic funding for other purposes. Given the orientation of the Five-Year Economic Independence Plan, the government did not want to create the impression that Japan was closed or isolated. It also recognized that low-interest funding from abroad might spur economic expansion, but it was generally cautious. Imports of foreign capital were to be decided on a case-by-case basis, thus giving the regulators room to make individual adjustments.

Fiscal and monetary policy became more closely linked in the quest for “soundness.” This was a reaction to the tendency seen since the Dodge Plan to use a large increase in credit to provide coverage from the monetary side for austerity on

the fiscal side. Greater integration of fiscal and monetary policy was one way to ensure that the effects of the "One Trillion Yen Budget" would be more widely felt.

The maintenance of stable currency values was a key policy for the achievement of the New Long-term Economic Plan. Though an issue for fiscal and monetary policy, stable currency values were viewed at the time more as a means of assuring stable domestic prices, a hold-over from the days when controls were used to stabilize prices of basic materials. The idea that monetary policy should be employed to achieve this had not yet taken root, nor were the conditions really in place for it to do so, since finance had yet to be restored to its normal, core functions.

The themes of "financial normalization" and "financial soundness" extended throughout the late 1950s, but for monetary policy to function normally required that all the elements be in place, including such orthodox tools of monetary policy as interest-rate policy, open-market policy and payment reserve manipulation. This, in turn, required a restoration of interest-rate functions, which in the prevailing "step-at-a-time" argument meant resolving the overloan problem and normalizing the supply and demand for funding. In other words, with "sound finance" as their goal, the policy-makers were forced to recognize the fact that, from an objective standpoint, the supply of industrial funding through private-sector over-lending had already, and quite obviously, become a determining factor in the quantities of funding available. This situation was in direct contradiction to the principle of "sound finance" (in fact, it was something that "sound finance" could not allow to happen). The monetary policy objective was therefore not as clear as the fiscal policy objective, and in actual practice, the authorities were left to "treat the symptoms" using the existing mechanisms to make adjustments that would meet real needs without bringing the system down.

2) Low-interest Rate Policy

One of the most important facets of the economic policy of the day, which targeted growth through greater external competitiveness, was the "low-interest rate

policy." Policies aimed at reducing interest rates included, first, lower production costs and, second, financial normalization. The latter was emphasized repeatedly by the MOF until about the mid-1960s.

Low interest rates are not, by all rights, possible when rapid growth has triggered a shortage of funding and the financial sector is unable to supply funding in a normal manner in any case. The only way they were maintained was by creating an artificial interest-rate scale, determined according to standards divorced from market rates, and pegging interest rates at low levels. The rationale for doing so came from the "Temporary Interest Rate Adjustments Law" that was passed during reconstruction and that provided the guidelines for interest-rate regulation. Although supposed to be only temporary, the system was held over with a few modifications. During the late 1950s and early 1960s, the basis for the artificial interest-rate scale was the yield bid on government-guaranteed bonds. Financial institutions underwrote almost all the government-guaranteed bonds, and the yields they bid were consequently determined by their own funding costs. This price formed the basis for calculating the yields on other bonds and the interest paid on deposits.

Table 4-7 Discount Rates of Major Countries

Year's End	Japan	US	UK	West Germany	France	Italy
1950	5.11	1.75	2.00	6.00	2.50	4.00
1953	5.84	2.00	3.50	3.50	3.50	4.00
1956	7.30	3.00	5.50	5.00	3.00	4.00
1959	7.30	4.00	4.00	4.00	4.00	3.50
1962	6.57	3.00	4.50	3.00	3.50	3.50
1965	5.48	4.50	6.00	4.00	3.50	3.50
1968	5.84	5.50	7.00	3.00	6.00	3.50
1971	4.75	4.50	5.00	4.00	6.50	4.50

Scholars disagree as to whether or not the low interest-rate policies were effective - and, indeed, whether or not low interest rates were actually established. On the lending side, the existence of derivative deposits meant that the real interest paid by borrowers was not actually so low. Clearly, the financial institutions took a

sufficient margin to place themselves in a comparatively advantageous position. On the other hand, it is also a fact that, if the interest-rate regulations had been loosened, the rates would have shot upwards immediately. The chronic tightness of the money markets made that inevitable, as the high rates on the call market, the only unregulated market, attest. It is therefore possible to argue that the rates were lower than they would have been had there been no regulation.

The government was consistently successful in its policy of keeping interest rates on deposits low, which enabled the financial institutions to raise funds inexpensively. The competition for funds among financial institutions was particularly intense from the early 1950s to the mid-1960s, and some institutions did attempt to attract depositors with "special rates" that went beyond the official, regulated rates. The MOF and BOJ were adamant about maintaining official rates on the fund-raising side, however, issuing "requests" for institutions to exercise restraint and in some cases charging over-payers with violation of the Temporary Interest Rate Adjustments Law. Though there were some obvious contradictions between the slogans encouraging private-sector savings as an engine to economic growth and regulations that kept the returns on those savings low, the priority was always on maintaining artificially determined interest rate scales and keeping rates pegged low according to them.

3) Industrial Funding Allocation Policies

The legal means and tools for the directly regulated allocation of funding seen during the reconstruction period remained in place through the early 1950s. During the late 1940s, the MOF considered the "Financial Institutions Capital Financing Regulations" to be one of the priorities in its policies governing fund allocations by financial institutions. The actual guidelines for enforcement were introduced in a May 6, 1954, circular from the head of the Banking Bureau entitled "Near-term Lending Guidelines." The circular instructed financial institutions to place a priority in industrial lending on sectors that would contribute directly or indirectly to improving the balance of payments, as detailed in the basic investment guidelines

for government industrial equipment financing. By the same token, the institutions were to place strict limits on the extension of credit to "nonessential or uncritical sectors" (defined in the circular as building construction other than housing, inns and lodgings, restaurants and entertainment). The circular went on to note that the prioritization of industrial lending on a sector-by-sector basis (as detailed in the "Table of Industrial Lending Priorities" attached to the "Financial Institution Capital Financing Regulation") had attracted more than enough capital investment to the priority sectors, and that the Ministry looked for self-restraint on the part of institutions as a result. The Financial Institution Capital Financing Regulation was used as a means of regulating lending to "nonessential or uncritical sectors," by requiring consultations with the BOJ before making loans to sectors designated as "low priority."

Although the government tried to avoid direct controls wherever possible, the artificial interest rates did not allow socially valid allocations of funding, as a result of which it was necessary to provide official funding and credit allocation policies based on general industrial policy. The government and the BOJ employed monetary policy to guide industrial funding allocations. They also provided funds directly through official lending and tried to guide private-sector financing with joint-financing programs and the entrustment of screening to government financial institutions. One of the hallmarks of Japanese monetary policy at this time was the deep involvement of the government and the BOJ, not only in regulating the money supply but also in the allocation of market funds. Made possible by the mechanisms described above, this involvement is generally praised for bringing greater efficiency to the supply of industrial funding for economic growth. It is not necessarily clear, however, just how this was accomplished (one of its important components was the "foreign exchange budget" that was enforced under the foreign exchange control regime).

Extending this argument leads to the idea that the public authorities could interfere in market fund allocations themselves to direct them to priority industrial

sectors. The MOF was, however, fundamentally opposed to such direct methods of control. The "Bill Concerning Temporary Measures to Adjust the Fund Investments of Financial Institutions," prepared by the political parties in 1955, had three main tenets: 1) use tax cuts to increase savings; 2) to require financial institutions to earmark a set percentage of the increase in savings for investments in public bonds, thereby providing funding for the FILP; and 3) to allocate the increased FILP funding to priority industries. In other words, the politicians wanted to let the FILP tap private-sector funding.

Specially, the bill would have required commercial institutions to set aside no more than 20 percent of the increase in savings for the purchase of government bonds, municipal bonds, interest-bearing bank debentures, public corporation bonds (for the national railroads and the telephone corporation) and other bonds as designated. In addition, a new commission established in the MOF would advise the Minister of Finance on issues of importance with respect to the investment of commercial financial institutions.

The Diet eventually rejected this bill, but a Council on Financial Institution Fund Operations was established as a compromise by Cabinet decision and charged with looking into the investments of private-sector institutions. The private-sector institutions, for their part, voluntarily established a Funding Adjustment Committee, which would maintain contact with the Council on Financial Institution Fund Operations and provide voluntary lending adjustments. We should note, however, that unlike those proposed in the "Bill Concerning Temporary Measures to Adjust the Fund Investments of Financial Institutions," these adjustments had no binding force. In 1958, the Industrial Rationalization Council was established under the auspices of the Minister of International Trade and Industry for the purpose of conducting adjustments throughout industry. One of its subsidiary bodies, the Subcommittee on Industrial Funding, became an important institution in the regulation of capital investment financing.

During the late 1950s and early 1960s, bank debentures accounted for 60-70

percent of the bond market. Corporate bonds, only about 20 percent of the market during the late 1950s, declined to a mere 10 percent in the early 1960s. This share was the result of fund allocations by the "bond raising adjustment" structure. Since the financial institutions were perennially "overloaned," their funding capabilities were dependent on credit from the BOJ, and it was these credits that determined their capacity to underwrite bonds. This structure made some sort of coordination essential for new issues and ensured that the effects of that coordination would be felt throughout the economy.

Adjustments among new issues were less a problem for the securities markets than an issue of how institutions were to allocate funds. Bank debentures were used by long-term credit banks and employed to fund loans for long-term capital investment in such priority sectors as electric power, marine transportation, coal and steel. As one of the chief vehicles for carrying out industrial policy, they were given a particularly high priority; this priority handling was the reason for their dominant share of financial institution bond investments. In fact, the Trust Fund Bureau also invested in bank debentures, with the result that they could actually be issued in excess of the financial institutions' underwriting capacity.

When they were first issued in fiscal 1953, the government-guaranteed bonds were floated on an entirely public-subscription basis. In 1956, however, they began to be assigned compulsorily to financial institutions, in a system that continued to expand throughout the second half of the 1950s. Ostensibly, government-guaranteed bonds were to be public subscriptions, but the returns on investment were so low that the public subscriptions were difficult to float in actual practice. Assigning bonds to financial institutions fulfilled the formal requirement that the entire issue be absorbed by the market (the underwriting syndicate). Corporate bonds had to be satisfied with whatever funding was left over after the bank debentures and government-guaranteed bonds.

With funding limited and the desire to issue bonds strong because of the high economic growth, corporate bond issues were subject to particularly severe

restrictions. During the early 1950s, this took the form of direct control - the “BOJ Collateral-qualified Corporate Bond” system allowed the Bank of Japan to decide who would and would not be allowed to issue. During the late 1950s, this decision-making was transferred to a self-regulatory system in the name of liberalization, and the decisions were now made by a “Bond Raising Consultation Committee” composed of the major banks and brokerages. Questions taken up by the committee included the amount of new issues projected for the year, ratings standards and amounts to be allocated to each rating level. (Note the use of an American-style rating system as the standard for new issues adjustments.) While virtually 100 percent of the desired government-guaranteed bonds were issued, adjustments in the corporate market led to wide fluctuations in the “achievement rate” for would-be issuers, and even then, electric power companies had generally high achievement rates while the rates for general issuers were low and subject to sharp swings. Corporate bonds were a marginal part of the new issues market, and with strategic sectors given priority on such issues as were allowed, general issues were often squeezed out. This is why bonds were a marginal means of fund-raising for industrial companies at this time.

4) Marshalling Savings in the Cause of Growth

Japanese savings and investment rates were demonstrably high during this period. From the micro perspective, it is easy to verify that the propensity of Japanese households to save was high by international standards. At the level of fiscal and monetary policy, however, there was an awareness of a shortage of savings, both from the perspective of the industrial fund-raising structure and from the perspective of financial institution funding positions. Obvious during the reconstruction period, this remained true in the high-growth period. Overcoming this scarcity of domestic funding was a central duty of fiscal and monetary policy. Policies to encourage savings, particularly personal savings which were the main component of savings in absolute terms, were emphasized throughout the period, both as an important part of monetary policy and as a clearly articulated component

of fiscal policy, where they took the form of tax breaks or savings-friendly taxation policies.

The dominance of indirect financing resulted from the fact that the savings surplus was overwhelmingly entrusted to financial institutions rather than invested in the stock market.

Nevertheless, the institutions' funding positions fell short of demand. Throughout the high-growth period, the government and private sector cooperated to encourage greater savings as a direct solution to the funding shortage. Heading up this push were the Central Committee for Savings Promotion, established in April 1952, and the Bank of Japan Savings Promotion Department. The Central Committee for Savings Promotion decided annual savings promotion policies and set a savings target that it encouraged the public to reach. This system was perpetuated until 1975. In April 1957, the MOF set up a "Savings Promotion Headquarters" under its jurisdiction, and two years later the office of "Savings Promotion Officer" was created.

These programs were large and quite active, but as already discussed, regulated interest rates (including those paid on deposits) did not leave much room for savings-promotion measures within the context of either monetary policy or financial institution services. The savings promotion movement was thus largely an educational and psychological affair, which makes it difficult to judge its effectiveness. In the end, the growth in savings and bank deposits occurred in tandem with high economic growth: higher incomes resulted in greater financial surpluses. Most of the increase consequently came in the early 1960s and beyond. While there were constraints on what could be done from the monetary side, fiscal measures, particularly tax-free small-deposit accounts, proved effective.

The reasons why people chose deposits and savings for their surplus funds rather than investments in stocks and bonds have been a focus of considerable debate. An analysis of "Methods for the Rectification of Overloans," published on April 2, 1963, by the Standing Subcommittee on Research and Planning of the Financial

System Research Committee offered the following reasons: 1) The amounts of individual savings were extremely small, encouraging a preference for stability and liquidity; 2) bonds lacked liquidity because there was no trading market; 3) since new bond issues were made only with the wishes of issuers in mind, they were not attractive investments; and 4) the stock market continued to be highly speculative, preventing it from attracting personal savings. Others have argued from a different perspective, citing: 1) the failure of consumption to keep pace with the rapid growth in income during the high-growth period; 2) a strong preference for financial assets because of their sharp reduction in value resulting from postwar inflation; 3) bonus income, which encourages savings; 4) a backward credit system for purchases of housing and durable consumer goods; and 5) an ingrained habit of savings supported by high educational levels, a national work ethic and a strong desire to improve personal living standards. Another convincing argument is that the poor social security also encouraged people to save, although some point to high savings rates in West Germany, where the social security system was very good, to refute this position.

4. Rejoining the International Economy

1) Membership in the GATT

Since occupied territories were explicitly excluded from the GATT, Japan's membership in the Agreement had to wait until after independence, though steps to prepare for it were taken before independence had been achieved. In March 1951, Japan revised its tariff schedule, and after West Germany's membership was accepted in June of that year, the Plenary Session of the Agreement approved Japan's attendance as an observer in September, conditional on the signing of a peace accord. In July 1952, Japan filed a formal application for membership, but it was turned down due to opposition from one-third of the membership. The Plenary Session that October again delayed consideration of Japan's application because of the opposition of some countries. Japan's application eventually came up as an

Table 4-8 International Trade of Major Countries

(In millions of dollar)

Year	Japan		US		UK		West Germany		France		Italy	
	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import
1955	2,011	2,471	14,291	11,384	8,605	11,021	6,138	5,822	4,800	4,688	1,857	2,711
1960	4,055	4,491	19,626	15,018	10,611	13,033	11,422	10,175	6,863	6,279	3,648	4,725
1965	8,452	8,169	26,700	21,366	13,722	16,104	17,912	17,611	10,191	9,630	7,200	7,378
1970	19,318	18,881	42,659	39,952	19,351	21,724	34,225	29,944	17,999	17,928	13,206	14,969
1975	55,753	57,863	107,130	96,116	44,124	53,576	90,176	74,931	49,524	48,217	34,815	38,365

Source: Bank of Japan, Foreign Economic Statistics (Annual Report), 1975

Table 4-9 Exports by Regions (by countries)

(In Thousands of dollar)

Year	Total	Asia				Europe			North America		South America	Africa	Oceania
			Republic of Korea	People's Republic of China	Indonesia		UK	West Germany		US			
1953	1,274,843	654,522	106,830	4,539	105,436	118,753	33,141	15,825	300,173	233,879	58,251	128,782	14,363
1958	2,876,560	1,058,771	56,694	50,600	48,647	348,852	105,235	43,830	858,441	690,479	114,982	415,511	48,921
1963	5,452,116	1,868,321	159,661	62,417	98,721	891,559	155,825	115,522	1,794,683	1,506,910	197,500	475,440	222,840
1968	12,971,662	4,415,418	602,653	325,438	146,595	1,896,265	364,587	287,371	4,831,302	4,086,454	343,395	939,992	541,586
1973	36,929,971	11,583,158	1,789,115	1,039,494	902,402	7,377,354	1,357,212	1,270,776	11,789,293	9,448,678	1,420,187	3,142,325	1,616,844

Source: Toyokeizai shinposha, "Showa Kokusei Souran", Vol. 1, pp. 638-41

Table 4-10 Imports by Regions (by countries)

(In thousands of yen)

Year	Total	Asia				Europe			North America		South America	Africa	Oceania
			Republic of Korea	People's Republic of China	Saudi Arabia		UK	West Germany		US			
1953	2,409,637	796,757	8,567	29,700	97,825	202,839	48,824	37,855	1,027,386	759,693	125,825	55,868	200,962
1958	3,033,125	964,057	11,039	54,427	144,817	287,045	59,349	90,282	1,357,688	1,056,093	80,687	83,737	259,795
1963	6,736,337	2,063,585	26,980	74,599	178,874	850,798	149,132	219,781	2,681,768	2,077,330	278,547	265,699	595,933
1968	12,987,243	4,004,292	101,630	224,185	389,136	1,878,430	257,356	400,570	4,538,710	3,527,383	609,869	839,082	1,115,328
1973	38,313,604	13,791,098	1,207,309	974,010	1,386,371	5,297,385	760,783	1,116,159	1,927,063	9,269,559	1,312,842	1,746,891	293,842

Source: Toyokeizai shinposha, "*Showa Kokusei Souran*", Vol. 1, pp. 642-45

Table 4-11 Exports by Major Commodities (Value)

(In thousands of dollar)

	fish and shellfish	Raw silk	Cotton Textile	Synthetic Fiber Textile	Rayon Textile	Thin Sheet steell	Steel Pipe	Radio Receiver	Clothing	Scientific & Optical Instruments
1953	33,678	42,828	179,172		43,314	2,606	19,490	196	37,549	17,027
1958	123,331	22,469	277,029	6,667	61,742	25,405	15,468	34,190	148,909	57,850
1963	127,937	49,563	307,841	98,021	61,810	151,275	116,203	189,008	211,063	149,089
1968	190,044	8,717	238,357	393,677	56,527	481,307	328,351	421,331	387,124	371,961
1973	261,486	374	194,666	1,000,271	42,262	1,274,716	817,133	1,242,566	369,857	969,635

Notice: The top five export items in 1953 and 1973 are selected for this table. Fish and shellfish are processed products.
Source: Toyokeizai shinposha, "*Showa Kokusei Souran*", Vol. 1, pp. 616-27

Table 4-12 Imports by Major Commodities (Quantity)

	fish and shellfish (ton)	Raw silk (ton)	Cotton Textile (thousand square meters)	Synthetic Fiber Textile (thousand square meters)	Rayon Textile (thousand square meters)	Thin Sheet steell (thousand ton)	Steel Pipe (thousand ton)	Radio Receiver (thousand sets)	Clothing	Scientific & Optical Instruments (thousand sets)
1953	46,962	3,856	764,230		191,010	16	78	6	-	116
1958	138,459	2,828	1,041,339	13,058	301,605	161	77	3,797	-	719
1963	151,424	3,485	1,007,680	187,302	195,019	1,054	696	21,938	-	1,254
1968	238,563	461	665,536	868,909	151,275	3,597	1,916	36,810	-	2,433
1973	259,503	10	246,724	1,341,890	73,028	5,646	2,879	36,292	-	4,556

(Source) Same as Table 4-12.

official agenda item in October 1953, but it was once again rejected. Finally, in July 1954, the Agreement adopted an "Accession Advisory" for Japan, paving the way for the start of tariff negotiations in Geneva. During negotiations with 17 countries, including a two-and-a-half month negotiating session with the United States, Japan agreed to large tariff concessions, leading to its formal membership in the GATT on June 7, 1955.

The reason for this protracted acceptance process lay in memories of Japanese dumping and exchange rate devaluations prior to the war, which had left a particularly bad taste in the mouths of European and British Commonwealth countries. Time was required to overcome those memories. Also, the countries of Europe were still in the process of reconstructing, and they were intensely concerned with the outcome of tariff negotiations. The resulting political calculations gave external factors a large sway in Japan's application. Japan, for its part, was intent on joining the GATT as soon as the peace treaty was signed. The delay in the acceptance of its application until 1955 was the result of external conditions that it had not foreseen. GATT membership did not carry with it the obligation of immediate trade liberalization, but the application came just as Japan was completing reconstruction and the "special procurement demand" from the Korean War was dying down. The government recognized the need to establish foreign relations within the framework of the free trade system, and it therefore provided incentives for strengthening the economy in the Five-Year Economic Independence Plan.

2) Capital Imports

Aware of the shortage of funds at home, the Japanese government adopted the position of actively encouraging the importation of "superior" foreign capital within the context of the foreign exchange control regime. The "Law Concerning Foreign Capital" was passed to provide an exemption from the strictures of the "Foreign Exchange and Foreign Trade Control Law" that would encourage the flow of more foreign capital into Japan. Industry was generally enthusiastic about importing funds,

but dependence on foreign sources for equity capital and lending was not, in fact, particularly high during the reconstruction and high-growth periods. Foreign investors had little awareness of or confidence in the Japanese economy, and the conditions were not in place in Japan to attract as much investment as it hoped. Furthermore, constraints on foreign reserves made it necessary for the government to place strict controls on the selection of "desirable" foreign capital, which did not always mesh with private-sector demand. To this was added an undeniable wariness on the part of government and the private sector when it came to foreign capital: the fear that foreigners would dominate Japanese markets had been widespread since the Meiji period.

Capital importing began after the peace treaty with government backing. On October 15, 1953, the Japan Development Bank and the World Bank signed a contract for a $40.2 million government-guaranteed loan for private-sector electric power facilities at 5 percent interest. Known as the "First Electric Power Loan," this represented the first significant importation of foreign capital since the war. Negotiations on the deal began in January 1953 with the Washington Export Import Bank, but they were transferred to the World Bank for U.S. reasons. The World Bank, cautious in its appraisal of the Japanese economy's ability to repay the loan, imposed strict conditions on it. Indeed, it was at the behest of the World Bank that the Japan Development Bank signed on as the borrower. The collateral and security requirements imposed on Japan brought criticism of the loan at home as not being in the country's interest, but the magnitude of the funding and the interest rate made it too attractive to pass up. Indeed, similar loans were employed positively in subsequent years. As it became more apparent that Japan had achieved reconstruction, the World Bank tried to restrain its lending, but the government of Japan worked energetically with the Bank to gain extensions.

The Washington Export Import Bank was also a major lender at this time. On July 6, 1955, the United States provided Japan with its first surplus agricultural produce credits, and at roughly the same time as the second credits were coming

Table 4-13 List of World Bank Loans

(In thousands of US dollar)

Contract Signing date	Effectuation date	Borrower	Beneficiary	Contract value	Project
10/15/1953	12/29/1953	Japan Development Bank	Kansai Electric	21,500	Thermal power plant (Kanagawa)
10/15/1953	12/29/1953	Japan Development Bank	Kyushu Electric	11,200	Thermal power plant (Karita)
10/15/1953	12/29/1953	Japan Development Bank	Chubu Electric	7,500	Thermal power plant (Yokkaichi)
10/15/1953	2/16/1953	Japan Development Bank	Yahata Steel	5,300	Plate steel rolling
2/21/1956	5/11/1956	Japan Development Bank	Nippon Kokan	2,600	Seamless steel pipe
			Ishikawajima-Harima	1,650	Marine turbin
			Mitsubishi Shipbuilding	1,500	Engine
	Toyota 5/19/1956		Toyota Motor	2,250	Machine tool
			2/21/1956 Subtotal	8,100	
12/19/1956	3/25/1957	Japan Development Bank	Kawasaki Steel	20,000	Chiba plant
12/19/1956	3/19/1957	Agricultural Land Development Machinery Public Corporation	Agricultural Land Development Machinery Public Corporation	4,300	Cultivation development
8/9/1957	11/9/1957	Aichi Yosui Kodan	Aichi Yosui Kodan	7,000	Aichi water system
1/29/1958	3/28/1958	Japan Development Bank	Kawasaki Steel	8,000	Chiba plant
6/13/1958	8/22/1958	Japan Development Bank	Kansai Electric	37,000	Hydroelectric power plant (Kurobe)
6/27/1958	8/22/1958	Japan Development Bank	Hokuriku Electric	25,000	Thermal power plant (Arimine)
7/11/1958	9/24/1958	Japan Development Bank	Sumitomo Metal	33,000	Wakayama plant
8/18/1958	10/10/1958	Japan Development Bank	Kobe Steel	10,000	Nadahama/Wakihama plant
9/10/1958	12/22/1958	Japan Development Bank	Chubu Electric	29,000	Thermal power plant (Hatanada)
9/10/1958	11/14/1958	Japan Development Bank	Nippon Kokan	22,000	Mizue plant
2/17/1959	2/24/1959	Japan Development Bank	Electric Power Development Co.	10,000	Hydroelectric power plant (Oboro)
11/12/1959	1/16/1960	Japan Development Bank	Fui Steel	24,000	Hirohata plant
11/12/1959	1/16/1960	Japan Development Bank	Yahata Steel	20,000	Tobata plant
3/17/1960	5/25/1960	Japan Highway Public Corporation	Japan Highway Public Corporation	40,000	Meishin Expressway
12/20/1960	1/20/1951	Japan Development Bank	Kawasaki Steel	6,000	Chiba plant
12/20/1960	1/20/1951	Japan Development Bank	Sumitomo Metal	7,000	Wakayama plant
3/16/1961	5/3/1951	Japan Development Bank	Kyushu Electric	12,000	Thermal power plant (Kanagawa)
5/ 2/1961	6/30/1951	Japanese National Railways	Japanese National Railways	80,000	Tokaido Shinkansen bullet train line
11/29/1961	1/30/1952	Japan Highway Public Corporation	Japan Highway Public Corporation	40,000	Meishin Expressway
9/27/1963	11/21/1953	Japan Highway Public Corporation	Japan Highway Public Corporation	75,000	Tomei Expressway
4/22/1964	6/24/1964	Japan Highway Public Corporation	Japan Highway Public Corporation	50,000	Meishin Expressway
12/13/964	2/25/1965	Metropolitan Expressway Public Corporation	Metropolitan Expressway Public Corporation	25,000	Haneda-Yokohama expressway
1/13/1965	3/26/1965	Electric Power Development Co.	Electric Power Development Co.	25,000	Hydroelectric power plant (Kuzuryu)
5/26/1965	7/25/1965	Japan Highway Public Corporation	Japan Highway Public Corporation	75,000	Tomei Expressway
9/10/1965	11/4/1965	Hanshin Expressway Public Corporation	Hanshin Expressway Public Corporation	25,000	Hanshin Expressway
7/29/1966	9/20/1965	Japan Highway Public Corporation	Japan Highway Public Corporation	100,000	Tomei Expressway

Source: Ministry of Finance, Monthly Fiscal and Financial Statistics, No.222, pp. 78

Table 4-14 Washington Export-Import Bank Loans

(In thousands of US dollar)

Approval date	Borrower	Project	Construction period	Approved amount
	〔Electricity〕			
8/21/1956	Kansai Electric	Osaka thermal power plant No. 1	1956-59	8,972
12./4/1956	Kyushu Electric	Karide thermal power plant No. 2	1956-59	8,500
3/19/1957	Chubu Electric	Shin-Nagoya thermal power plant No. 1	1956-59	8,500
5/21/1957	Tokyo Electric	Chiba thermal power plant No. 3	1956-59	8,000
7/2/1957	Kansai Electric	Osaka thermal power plant No. 2	1956-59	4,250
9/4/1957	Tohoku Electric	Sendai thermal power plant No. 1	1956-59	7,300
11/5/1957	Tokyo Electric	Chiba thermal power plant No. 4	1956-59	4,800
12/17/1957	Kyushu Electric	Karide thermal power plant No. 3	1957-59	5,000
1/21/1958	Chubu Electric	Shin-Nagoya thermal power plant No. 2	1956-59	6,700
8/19/1958	Tokyo Electric	Yokosuka thermal power plant No. 1	1957-59	11,000
8/19/1958	Kansai Electric	Osaka thermal power plant No. 3	1957-59	4,800
11/20/1961	Kansai Electric	Himeji thermal power plant No. 2	1960-64	15,100
3/22/1962	Tokyo Electric	Goi thermal power plant No. 1	1961-64	5,300
2/28/1963	Tokyo Electric	Yokosuka thermal power plants No. 3 and 4	1961-64	37,100
3/7/1963	Chubu Electric	Owase thermal nuclear plants No. 1 and 2	1961-64	37,890
7/1/1964	Kansai Electric	Himeji thermal power plant No. 4	1964-67	19,182
4/1/1965	Tokyo Electric	Anegasaki thermal power plant No. 1	1964-67	24,550
10/26/1965	Chubu Electric	Chita thermal power plant No. 3	1964-68	9,525
	Subtotal			226,454
	〔Steel〕			
11./9/1957	Fuji Steel	Hirohata plant rolling equipment	1956-60	10,300
3/29/1958	Yahata Steel	Tobata plant rolling equipment	1956-60	26,000
8/12/1958	Toyo Kohan	Rolling and electrogalvanizing equipment	1956-61	7,100
3/22/1960	Toyo Kohan	Rolling and electrogalvanizing equipment	1960-61	3,000
11/4/1961	Nippon Kokan	Mizue plant tinning equipment	1960-65	6,500
11/29/1961	Fuji Steel	Hirohata plant electrotinning equipment	1961-65	15,600
5/7/1962	Sumitomo Metal	Wakayama plant cold strip mill	1961-64	8,100
8/23/1962	Yahata Steel	Tobata, Kagami and Chiba plant equipment		26,000
10/31/1962	Kawasaki Steel	Chiba plant cold strip mill		18,500
2/15/1965	Nippon Kokan	Fukuyama plant hot and cold strip mill	1965-67	15,000
4/20/1965	Fuji Steel	Tobata plant steel winder	1965	600
	Subtotal			136,700

(In thousands of US dollar)

Approval date	Borrower	Project	Construction period	Approved amount
	〔Others〕			
9/17/1957	Japan Air Lines	Aircraft procurement	1957-58	7,700
11/4/1958	Nippon Gas Chemical	Fertilizer plant equipment	1958-59	2,300
3/3/1959	Nissan Motor	Auto produciton expansion equipment	1957-59	3,000
9/15/1959	Japan Air Lines	Aircraft procurement	1960	17,186
7/23/1960	Toyota Motor	Auto produciton expansion equipment	1960-62	12,000
12/15/1960	Isuzu Motor	Auto produciton expansion equipment	1960-62	9,300
4/7/1961	Industrial Bank of Jpan	Small and medium enterprise loans		25,000
6/15/1961	Japan Air Lines	Aircraft procurement	1961	4,702
	Japan Air Lines	Aircraft procurement	1961	14,333
12/20/1961	Nissan Motor	Auto produciton expansion equipment	1960-65	11,000
3/13/1962	Nippon Gas Chemical	Gas compressor	1961-62	800
6/13/1962	Prince Motor	Luxury car manufacturing equipment	1962-63	4,100
7/18/1963	Industrial Bank of Jpan	Small and medium enterprise loans		15,000
1/31/1964	Ube Kosan	High-pressure polyethylene manufacturing equipment	1963-65	3,100
10/28/1964	All Nippon Airways	Aircraft procurement	1965	15,160
11/20/1964	Nissan Motor	Auto production expansion and ratioalization equipment	1964-65	5,000
4/13/1965	Ube Kosan	High-pressure polyethylene manufacturing equipment	1964-67	2,200
4/14/1965	Toyota Motor	Auto production expansion equipment	1965-66	11,000
6/30/1965	Sumitomo Chemical	Ethylene, polyethylene, ammonia equipment	1965-66	6,400
1/11/1966	Toyo Kogyo	Auto manufacturing equipment modernization	1966-67	2,350
3/25/1966	Sumitomo Chemical	Chibe ethylene and polyethylene equipment	1966	3,327
	Subtotal			174,958
	Total			538,112

Note: The table covers data through the end of March 1966. Later, "others" were divided into four categories -- aviation, automobile, chemicals and others.

Source: Ministry of Finance, Monthly Fiscal and Financial Statistics, No.176, pp. 82

through, the Bank approved an $8.93 million loan at 5 percent for Kansai Electric Power on August 21, 1956. Loans by the Washington Export Import Bank were tied, but they were provided annually under a U.S. government directive to the bank to respond positively to Japanese requests.

Foreign currency public bonds were another vehicle used to import foreign capital during this period. On February 18, 1959, Japan issued $30 million in bonds ($15 million in 15-year long-term bonds at 5.5 percent and $15 million in three-to-

five-year medium-term bonds at 4.5 percent) to fund loans from the Special Account for Industrial Investment. This bond issue illustrates the gradual weaning of Japan from its dependence on World Bank lending. On the advice of the World Bank, loans from the Bank were treated as part of a package that included independent fund-raising by Japan. In April 1961, Japan floated another foreign-currency bond issue, this time not of public bonds but of government-guaranteed bonds, of $20 million for the telephone company. This marked the start of a series of foreign-currency public and government-guaranteed bond issues, although the World Bank still had the final say in decisions on the terms of borrowing. With the February 1962 issue of a (government-guaranteed) DM1OO million bond by the Prefecture and City of Osaka, Japan's fund-raising market was extended to Europe. Sources became more diversified in the ensuing years. In August 1963 a 5 million pound bond was issued in Britain (to roll over a bond from 1899). This was followed in March 1964 by a 50 million Swiss franc bond (for industrial investment) and in June 1964 by a DM200 million bond (also for industrial development). In April and June 1964 the Tokyo Metropolitan Government floated a dollar-denominated bond in Europe, becoming Japan's first public issuer on the Euro-market and helping to expand the vehicles for raising foreign capital after the imposition by the U.S. of an “interest-rate equalization tax.” At this point, however, Japan's government did not consider the Euro-dollar market worthy of confidence. Its use was merely part of a diversification strategy, and it was reserved for public and government-guaranteed bonds.

Thus, when Japan first began to raise foreign capital, it turned to the U.S. market. As a former enemy and one lacking in credit besides, however, Japan could raise the money only with direct government intermediation, and the terms of the loans were constrained by the U.S. government's policies toward the Japanese economy and Japanese aid and by the opinions of the World Bank. Overcoming the constraints of U.S. policy meant searching for other sources of funding, but even in prewar times Japan had neither the presence nor the experience in Europe that it did in the United

States. Thus, government intermediation was again required. The experience and track record that Japan acquired through this government-mediated fund-raising gradually boosted its presence in the international capital markets and paved the way for an expansion of purely private-sector capital imports.

3) Balance of Payment Trends and the Currency Crisis of 1957

During the late 1950s and early 1960s, there was a rough split in the trade balance between surplus and deficit. The basic trend was from deficit to surplus, however. Japan ran a deficit until about 1957, but thereafter posted deficits only in 1961 and 1963. Exports achieved consistent growth, but imports were subject to wide swings, a situation which had a significant effect on the bottom line of the trade balance. The invisible trade balance was in surplus throughout (with the exception of 1957), thanks mainly to strong income from marine transportation, a trend that had been seen since the early 1950s. In the early 1960s the invisible trade balance moved into the red, where it has remained to this day, but the late 1950s were marked by surpluses. The result was to produce current account surpluses in 1955, 1958 and 1959, with deficits in 1956 and 1957. The structure of the current account had also changed since the early 1950s, when large surpluses in the invisible trade balance covered large deficits in the trade balance to keep the current account in the black. With the size of the invisible trade surplus declining in the late 1950s, the trade balance determined on which side of the line the current account would fall. Similarly, the balance of both the long-term and short-term capital accounts was relatively small, which made the trade balance the determining factor in the total balance of payments as well. The trends of the mid-1950s continued with respect to foreign reserves, which fluctuated sharply and did not exceed $1 billion until 1959.

The government invoked special measures to deal with a foreign currency crisis in 1957. The "Emergency Program to Improve the Balance of Payments," approved by the Cabinet on June 19, contained the broad outlines of a general economic package coupling tight money policies at the Bank of Japan with "foreign currency

supplements" (foreign borrowings). This was the first of what would become a regular pattern of currency crises and solutions. Initially, the program followed the general outlines of monetary tightening, with the official discount rate hiked first one percentage point and then a second point. Stricter foreign exchange controls were then imposed: authorized foreign exchange banks were instructed to cut their local lending ceilings and to draw down some of their foreign currency deposits; the maturities and range of applications for British pound-denominated import usances were contracted; collateralization rates were hiked for import guarantees; and redeposits with the Bank of Japan were required. The Cabinet decision of June 19 set the stage for further controls in four areas: 1) fiscal: deferment of investments and public works projects; 2) monetary: BOJ lending restraints, draw-up of funds with sell-backs of bonds held by the Trust Fund Bureau, programs to avoid a squeeze on smaller businesses, and easier export financing, savings incentives; 3) industrial: deferment of capital investment; 4) trade: export-promotion measures and stiffer import collateralization requirements

Additionally, the government bolstered its foreign exchange reserves with $125 million from the International Monetary Fund, $175 million from the Washington Export Import Bank, $300 million from the World Bank and other borrowings for a total of $680 million. The borrowings from the IMF were expressedly to boost reserves; those from the Washington Export Import Bank were credits for American agricultural produce (cotton, wheat, barley, soy beans); and those from the World Bank were existing loans for electric power and other projects.

The currency crisis of 1959 and the infusion of foreign funds used to defuse it coincided with a visit to the U.S. by Prime Minister Nobusuke Kishi to discuss revision of the U.S.-Japan Security Treaty and with the joint communiqué that came out of those discussions. This established a precedent for solving Japanese economic crises within the framework of U.S.-Japan relations. Foreign exchange policy was in a particularly tricky position at this time, because Japan had done nothing to comply with repeated IMF requests for liberalization, which made it difficult to get through

the required IMF consultations. It was only the pressure of the checks in these consultations that prevented Japan from adopting more draconian foreign exchange controls. When the foreign exchange position did not improve even with the dollars drawn down from the IMF, there were some who argued that the automatic approval system should be abandoned for stricter foreign exchange controls. This path was not followed, however.