Part 2： Fiscal and Monetary Policies in the High-growth Period

Preface

The second part of this book covers the period from 1955 to 1971. There is no established chronological definition of the high-growth period. Some consider it as having lasted until about 1975, but we treat it as having ended when the United States took the dollar off the gold standard, since this demolished one of the major assumptions of Japanese economic management during the postwar growth years: the assumption that the yen would continue to be valued at ¥ 360 to the dollar. This historical change in the underlying conditions seems a suitable watershed with which to define the end.

Chapter 4 covers the years from 1955 to 1959, Chapter 5, the years from 1960 to 1964, and Chapter 6, the years from 1965 to 1971. Since the subject of this book is policy history, we focus on the long-term macroeconomic plans that have been the hallmarks of Japanese economic management since 1955, dividing the periods according to the nature of the plans and the factors that contributed to them. A key factor in this is the relationship - both actual and conceptual - between the Japanese economy and the international economy. During the late 1950s, the objective of policy was, in the words of the day, to achieve “economic independence.” Having completed reconstruction, the Japanese economy rejoined the international economy, albeit with many regulations and postwar systems remaining intact. During the early 1960s, the focus shifted to becoming a respected participant in the international economy, a goal which was accomplished through the liberalization of trade and foreign exchange. The Income-doubling Plan provided a policy framework to support rapid liberalization. Throughout the 1955-1964 period, the aim was to catch-up with the industrialized-West, and slogans such as “maximum growth” were the norm. In fact, the economy routinely achieved growth in excess of government forecasts, and an underlying assumption held that there would be basic stability in the international economy and in the monetary system that mediated it, thanks to the overwhelming dominance of U.S. economic might.

After 1965, Japan too became an “industrialized country,” and as it did so, the focus shifted to achieving the qualities of a leading country, in addition to the quantities. The external qualities, in this case, took the form of capital liberalization and the internal qualities the creation of a welfare state. It was at this time that the two primary thorns in the sides of the economic managers, the balance of payments deficit and foreign reserve shortages, finally disappeared. It was also at this time, however, that the international economic and monetary systems began to shake. While the Japanese economy had grown sufficiently to be an accepted part of the international economy, it was largely left to fend for itself when upheaval ensued. The realignment of the international monetary system brought an end to the ¥ 360 rate against the dollar.

That fixed rate had been the cord binding Japan to the international economy and the axiom underlying all the nation's economic activities. Because a structural trade outflow was inevitable for a long time, it was the greatest constraint on economic policy, which had to be conducted in such a manner as to avoid bankrupting the country under what were considered “given” conditions. Economic policy could only function within that framework, and the framework was supported either by direct controls or regulation. Once the framework was established, however, international factors became relative; economic policy could be, and in fact was, built around domestic factors within this overarching framework. During the late 1960s, conditions were percolating that would eventually make changes in both the systems and ways of thinking inevitable. The final blow from outside was Richard Nixon's announcement that the U.S. would suspend conversions of dollars for gold.

Each of the chapters in this section begins by outlining the economic plans for the period under discussion. This is not to suggest that the fiscal and monetary policies were based on long-term economic planning, or administered to achieve the objectives of the plans. Rather, we should make it clear that the fiscal and monetary policies developed and operated based on their own logic and history. It is more realistic to think that their basic directions were taken into account in the drafting of economic plans than to view it the other way around. The purpose of this book is not, however, to argue the significance of long-term planning to the postwar Japanese economy. Our use of the plans is, rather, for convenience in defining periods and forms.