

LTCB International Library Selection No. 1

LECTURES ON MODERN JAPANESE ECONOMIC HISTORY 1926-1994

NAKAMURA TAKAFUSA

Professor Emeritus

The University of Tokyo



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Transcription of names

The Hepburn system of romanization is used for Japanese terms, including the names of persons and places. Long vowels are not indicated. Chinese terms are romanized using the pinyin system. The Wade-Giles system is used, however, for certain place-names outside mainland China. As for the romanization of Korean terms, the McCune-Reischauer system is used.

With regard to Japanese, Chinese, and Korean personal names, we have followed the local custom of placing the family name first.

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Born in 1925, NAKAMURA TAKAFUSA is Professor Emeritus of the University of Tokyo. One of Japan's leading economic scholars, he served as Director-General of the Economic Research Institute in Japan's Economic Planning Agency from 1977 to 1979. Professor Nakamura, who has taught at Ochanomizu University, and is currently Professor at Toyo Eiwa Women's University, has published 13 book-length studies of the modern Japanese economy during his career. Works translated into English include *The Postwar Japanese Economy: Its Development and Structure* (University of Tokyo Press, 1980) and *Economic Growth in Prewar Japan* (Yale University Press, 1983).

Professor Nakamura was awarded the Osaragi Jiro Prize for his two-volume *Showashi* (The History of Showa), published by Toyo Keizai Inc. in 1993.

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LTCB International Library Foundation

c/o The Long-Term Credit Bank of Japan, Ltd.

1-8, Uchisaiwai-cho 2-chome

Chiyoda-ku, Tokyo 100, JAPAN

TEL: (03) 5223-7204

FAX: (03) 5511-8123

LECTURES ON
MODERN JAPANESE
ECONOMIC HISTORY
1926-1994

PREFACE TO THE ENGLISH-LANGUAGE EDITION

I am delighted that this work, which first appeared under the title *Showa Keizai Shi*, has been translated into English and made available to overseas readers thanks to the LTCB International Library Foundation. I hope that it will present overseas readers with a balanced picture of Japan's modern economic history and encourage a fair perspective on Japan.

The Japanese-language edition presents seven lectures that I gave at a seminar series sponsored by the prestigious publishing house Iwanami Shoten Publishers. The lectures, given in March and April 1985, were transcribed in shorthand, and after some editing and rewriting, the volume appeared in February 1986. The title *Showa Keizai Shi* (Economic History of the Showa Era) was adopted because the seminar sponsors and I felt that it would be a valuable exercise to commemorate the 60th of the reign of the Showa Emperor by undertaking a retrospective of the economic events and development of this turbulent era. Chapter 7 of the English-language edition, however, differs significantly from that in the Japanese edition. In order to take into account the dramatic changes that have occurred since 1985, the text of that chapter is based on a talk that I presented to the Planning Division of the Long-Term Credit Bank of Japan, Ltd., and covers events up to 1994.

Showa refers to a reign period, a method of reckoning dates that was adopted and adapted in Japan from Chinese usage. Nowadays the practice is to assign a new reign period when a new emperor ascends the throne. This year, 1994, is the sixth year of

the Heisei reign period. The term Showa was adopted in December 1926, when the Showa Emperor came to the throne, and was employed for 64 years until his death in January 1989. The Showa period thus accounts for half of Japan's modern history, as dated from the opening of Japanese ports in 1854.

The Showa era began in recession and saw Japan embark on the path of steady recovery and growth, only to have these destroyed by eight years of senseless war. The period of the late 1940s and early 1950s was one of economic recovery, followed by over a decade of dramatic growth that lasted up to about 1970 and changed Japan's economy and society in every imaginable way. The oil crisis of 1973–74 drew the final curtain on the era of rapid growth, which was followed by a period of stable growth in which Japan's economy began to internationalize and Japan found itself having to meet new responsibilities to the global economy.

This volume attempts to recount Japan's economic history from the 1920s to the present day in a way that is accurate and, hopefully, easy to comprehend. Economic history relates to obvious events, such as depressions and wars, but it also must deal with less visible, continuous, but no less definitive processes, such as changes in industrial structure and movements of population among regions. I hope that I have been able to convey both aspects as objectively as possible in this work.

I would like to take this opportunity to thank the many people who made this English-language edition possible. First, my gratitude goes to Messrs. Uehara Takashi and Ito Yoshiaki, of the LTCB International Library Foundation, who first proposed the translation project. I would like to thank the many staff members at Simul International, Inc., for their efficient teamwork in translating, revising, and producing the English-language text and especially Dr. Chris Brockett, of the University of Washington, who undertook the translation of the entire Japanese text into English with enthusiasm. In addition, I would like to acknowledge the immense effort of Messrs. Takeda Koshi and Sugita Tadashi, of Iwanami Shoten Publishers, in bringing about the publication of the original Japanese-language edition. To all these individuals, I would like to extend my appreciation.

CONTENTS

PREFACE TO THE ENGLISH-LANGUAGE EDITION.....	vii
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Lecture 1

TRANSFORMATION AMID CRISIS: THE 1920S	1
Introduction.....	3
Economy and Society in the Early Showa Years	5
The Bank Panic.....	23
The Showa Slump.....	35

Lecture 2

GUNS AND BUTTER (1932-1937).....	51
Economic Recovery under Takahashi Korekiyo.....	55
Industrial Development	67
A Quasi-war-time Footing	77

Lecture 3

THE CLAW MARKS OF WAR (1937-1945).....	85
The Beginning of Economic Controls	88
The Pacific War	106
The Foundations of the Postwar Economy	123

Lecture 4

RECONSTRUCTION (1945-1951)	129
Changes wrought by defeat	131
Democratization	133
The Hard Road to Reconstruction	148
The Dodge Line and the Korean War	155

Lecture 5

WEALTH WITHOUT MILITARY POWER (1952–1965)	171
Status of the postwar economy	173
The Starting Line of Growth	178
The Dual Structure	196
The Age of Income Doubling.....	209

Lecture 6

EMERGENCE AS AN ECONOMIC POWER (1966–1975)	227
Economic Growth Takes Root.....	229
The End of Growth	244
Japan's Worst Postwar Recession.....	255

Lecture 7

ECONOMIC GLOBALIZATION (1975–1988)	263
The Transition to Stable Growth	265
Financial Deregulation.....	283
Internationalization and the Strong Yen	290

EPILOGUE: THE BUBBLE BURSTS	306
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Index	315
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The LTCB International Library Foundation:
Statement of Purpose

Lecture 1

TRANSFORMATION AMID CRISIS: THE 1920S



It is 1927 and crowds are rushing the banks as scandal surrounding government earthquake notes shakes depositor confidence. Many banks will close their doors in the following days

1926	<i>December</i>	Emperor Taisho dies. Emperor Showa ascends the throne, and a new era is proclaimed.
1927	<i>March</i>	The bank panic (triggered by an ill-advised statement by Finance Minister Kataoka).
	<i>April</i>	The Privy Council rejects a proposed imperial order for the rescue of the Bank of Taiwan. Prime Minister Wakatsuki Reijiro and his cabinet resign. Tanaka Giichi becomes prime minister and ends the crisis with a three-week bank moratorium.
1928	<i>June</i>	The Chinese Nationalists crush the northern warlords and reunify China. Zhang Tsolin is assassinated by Japanese forces.
1929	<i>July</i>	Tanaka and his cabinet resign. Hamaguchi Osachi becomes prime minister with an agenda of naval disarmament and of lifting the gold embargo.
	<i>October</i>	The New York Stock Exchange crashes, triggering global panic and recession.
	<i>November</i>	Japan's Ministry of Finance orders the ban on gold exports lifted, to be implemented in January the following year.
1930		The recession deepens in agriculture. The Showa depression is in full swing.
	<i>November</i>	Prime Minister Hamaguchi is assassinated. Wakatsuki becomes prime minister again.
1931	<i>March</i>	Mid-ranked army officers unsuccessfully plot overthrow of the government.
	<i>April</i>	The important Industries Control Law is promulgated.
	<i>September</i>	Crisis in Manchuria. Great Britain goes off the gold standard. Dollar purchases soar; the government responds aggressively.
	<i>December</i>	Wakatsuki and his cabinet resign. Inukai Tsuyoshi becomes prime minister. Takahashi Korekiyo is appointed minister of finance and abandons the gold standard.

Lecture 1

TRANSFORMATION AMID CRISIS: THE 1920S

INTRODUCTION

This year, 1985, marks the 60th year of the Showa era, which has thus completed one full cycle of the old Chinese calendar. Half of Japan's modern history has been in the Showa era. Since the 60th year of Showa is 118 years after the Meiji Restoration, the Showa era has lasted slightly longer than the preceding Meiji and Taisho eras combined. The first year of Showa, 1926, marked the midway point between the beginning of modern Japan and the present day. Moreover, since 40 years have now elapsed since Japan's defeat in World War II, one-third of Japan's modern history has taken place in the postwar period.

The Showa era has not just been of long duration, but it has been an age of tumultuous change seldom matched in other modern nations. Nowadays we hear a good deal about the newly industrializing economies (NIEs), whose number in Asia includes South Korea, Taiwan, Singapore, and Hong Kong. Future generations may argue that the changes that have taken place in these countries have been more rapid than those that took place in Japan, but Japan's transformation, I am convinced, has been the most dramatic in modern history. If you will look at figure 1.1, I have presented the changes that have taken place since 1920 in terms of population employed and income, broken down by industrial sector. Between 1925, the year before Emperor Showa ascended the throne, and 1980, the working population almost exactly doubled. In 1925, primary industries—in other words, agriculture, forestry, and fisheries—still accounted for half of the working population. Secondary industries, which include con-

Working Population, by Industry				National Income, by Industry			
(thousand people)	Primary Industry	Secondary Industry	Tertiary Industry		Primary Industry	Secondary Industry	Tertiary Industry
27,260	52.8	23.0	24.2	1920	30.2	29.1	40.7
28,105	50.0	22.5	27.5	1925	28.2	27.1	44.7
29,619	49.5	20.8	29.8	1930	17.6	31.6	50.8
31,211	46.3	21.8	31.9	1935	18.1	36.6	45.3
32,500	44.7	25.3	30.0	1940	18.8	47.4	33.8
33,290	53.4	22.3	24.3	1947	35.4	28.5	36.0
35,626	48.3	21.9	29.8	1950	26.0	31.8	42.3
39,261	41.0	23.5	35.5	1955	23.1	28.6	48.3
43,719	32.6	29.2	38.2	1960	14.9	36.3	48.9
47,633	24.6	32.0	43.4	1965	11.2	35.8	53.0
52,110	19.4	34.0	46.6	1970	8.6	43.0	48.4
53,015	13.9	34.0	52.1	1975		35.8	57.5
55,811	11.0	33.5	55.5	1980		38.2	58.2

6.6 3.6

Fig. 1.1. Working Population and National Income by Industry

Sources: Working population figures are from census data. National income data are from Okawa Kazushi, et al. *Kokumin Shotoku* (National Income) in *Choki Keizai Tokei* (Long-term Economic Statistics), Toyo Keizai Shinpo Sha, 1974 and Economic Planning Agency estimates.

struction and mining in addition to manufacturing, accounted for a total of 22.5 percent, while tertiary industries, such as transportation, communications, electric power, gas, water supply, finance, commerce, services, and public administration, totaled 27.5 percent altogether.

Changes between 1925 and 1985

The proportion of the population working in primary industries declined up to the end of World War II, when the numbers jumped 10 percent in 1947 to nearly 18 million, with the proportion working in secondary and tertiary industries declining proportionately for a time. After that, the changes came fast and furious. The working population grew by approximately 22 million. The agricultural population, after decreasing moderately up to 1955, subsequently plunged 11 percent, or to about 6 million today in 1985. Meanwhile, the number of workers in secondary and tertiary industries increased. Secondary industries in particular grew rapidly to 1970, but after that only the tertiary industries continued to expand, growing to the point where they employed over half the working population.

Income statistics indicate that in 1925 primary industries supplied 28 percent of all income, secondary industry 27 percent, and tertiary industries 45 percent. Incomes from primary industries then declined as a percentage in the period up to World War II, while secondary industries showed atypical growth owing to demand for military materiel, something that is strikingly apparent from the 1940 statistics. Income from tertiary industries shrank temporarily during the same interval. After Japan's defeat, the percentage of income from primary industries rose for a brief period beginning in 1947, but later plunged, while the shares of secondary and tertiary industry, especially tertiary, surged ahead. The shifts reflect the immense transformation that took place in the Japanese economy in the Showa era.

I should also add that in the 1860s, at the beginning of the Meiji era, about 80 percent of the population was engaged in agriculture, an indication of just how completely Japan's economic structure has changed in the 118 years since the Meiji Restoration.

ECONOMY AND SOCIETY IN THE EARLY SHOWA YEARS

Let me begin by sketching the shape of the Japanese economy in the early years of the Showa era, that is, the latter half of the 1920s. Japan was already a well-established capitalist society. There is much debate as to when the capitalist society became

established; I myself date it to the 1890s and to the latter part of the 1890s in particular.

The Japanese economy enjoyed a period of prosperity during World War I, but in 1920, two years after the war ended, the country was plunged into recession. Since economies around the world were in protracted recession, a somber economic mood prevailed in Japan. Nonetheless, by this stage the Japanese economy now featured a full range of industries, and the top companies, notably in the textile industry, were already dominating the economic picture.

Old-fashioned capitalism

There were, however, some major differences between the industries of the time and the industries of today. The 1920s was an age in which old-style capitalists still existed in some number, and the gap between rich and poor was far wider than today. Japanese society of the time, as indeed did other societies around the world, still retained something of the nineteenth-century capitalism of the age of Marx and Engels. In America, the great capitalists—Rockefeller, the oil king; Carnegie in steel; Harriman and Vanderbilt in railroads; Ford in automobiles; and Morgan, who single-handedly dominated the banking industry—and their families held sway over American society. Japan also had its great capitalists: there were the big *zaibatsu* conglomerates of Mitsui, Mitsubishi, Sumitomo, and Yasuda and the second-tier *zaibatsu* of Furukawa, Okura, Asano, Fujita, and Shibusawa. There were also numbers of well-funded individual entrepreneurs of varying degrees of wealth.

The great capitalists were naturally concentrated in Tokyo and in the area of Kobe and Osaka, but the regional cities were home to lesser capitalists, still of substantial wealth, who dominated local industries. These individuals were, in terms of the currency of the time, millionaires or multimillionaires. They held stock in many companies and concurrently held directorships on the boards of several companies, showing up for board meetings, but not otherwise in the regular employ of the company. Moreover, large sums in directors' compensation were carved out of company profits, so they derived immense incomes from the companies.

Labor and farmers movements

Workers' pay, by comparison, was still extremely low. This was an age in which workers lived in cheap rental housing and wore coveralls. Class conflict was perceived as a genuine problem. This was the period in the Japanese prewar era in which workers and farmers movements were most active, as can be seen from figures 1.2 and 1.3.

The other day I happened to read Asano Tokiichiro's reminiscences on the Tsukiji Little Theater. Between 1929 and 1933, the repertoire of this playhouse almost entirely consisted of dramas of class struggle on the part of workers and poor farmers. Asano recalls that even when the scripts were slashed out of recognition by censors lines, gestures, and sound effects that hinted at struggle

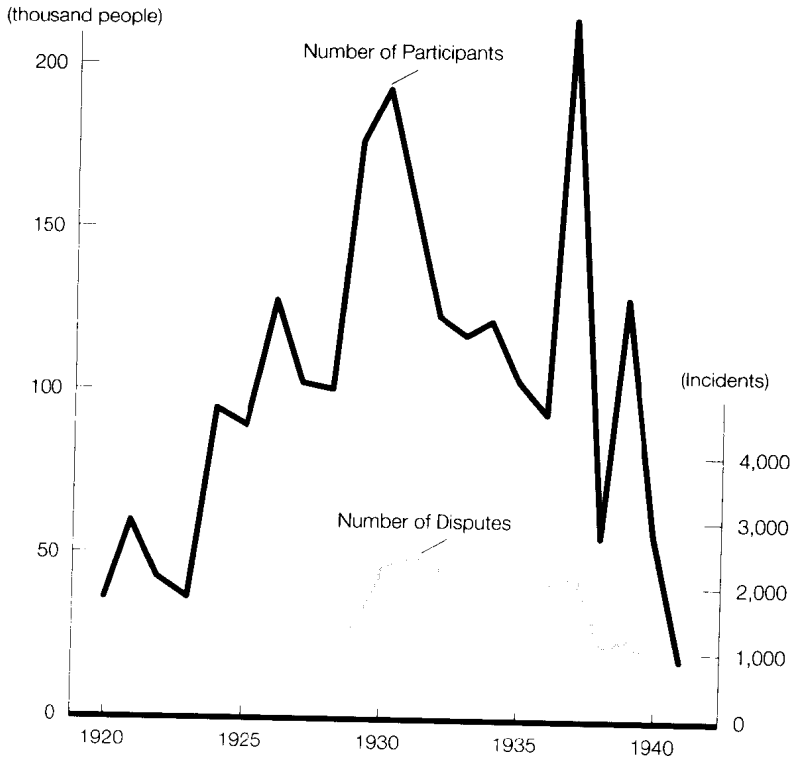


Fig. 1.2. Number of Labor Disputes and Number of Participants

Source: *Nihon Rodo Undo Shiryo* (Sources on the Japanese Labor Movement). The University of Tokyo Press, 1959. Vol 10.