

Lecture: Contemporary Economic History of Japan

No. 25

4-4 Consummation of High Growth

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1. Nixon Shock and Excess Liquidity

1971

- 8/15: President Nixon announced dollar-defense measures
- 8/23: European nations switched to float system
- 8/28: Japan switched to float system; supported dollars by buying \$3.9 billion in this time
- 12/18: Smithsonian Agreement concluded; exchange rate at ¥308 to dollar

1972

- Spring: Upward trend of primary commodity price elicited
- May-Oct.: Japan employed business stimulating measures to reduce dollars
- Excessive liquidity came to an issue; inflation enlarged
- Jun.: Pound switched to float system; Smithsonian monetary system collapsed
- Since autumn: Boom on Plan for Remodeling the Japanese Archipelago

1973

- 1/1: Crude oil priced \$2.591 a barrel
- Oct.: Exchange rate at 265 to the dollar
- 10/1: Crude oil priced \$3.011 a barrel
- 10/6: 4th Middle East War begun
- 10/16: Arab oil states announced unilateral oil-price increase and oil-export suspension to adversarial nations; crude oil priced \$5.119 a barrel
- 11/1: Toilet roll panic at Senri New Town in Osaka
- 12/10: Special envoy Takeo Miki was dispatched to Arab, that recognized Japan as friendly nation on 12/25
- 12/13: Disorder of the run on a credit union in Aichi Prefecture

1974

- 1/1: Crude oil priced \$11.651 a barrel
- 2/19: Case of an unauthorized petroleum cartel detected
- 4/11: Spring labor offensive executed a transportation general strike
- 11/26: Prime Minister Tanaka expressed his resignation on account of money pipeline issue

- Dimensions of prosperity of Japanese economy attributed to the long-lasting high economic growth were symbolized in the excitement at the world exposition held at Senriyama Hills of Osaka in 1970 for the first time in Asia. Behind this festivity under the theme of “Human Progress and Harmony”, various problems generated as results of the high growth became more serious.
- For example, environmental pollution issues arouse in various regions starting with Minamata disease and Yokkaichi asthma, and drug-induced diseases like thalidomide case transpired. Furthermore, the aggravation of dwelling environments in urban areas was advancing as in the progress of aerial pollution by cars and others, the escalation of waste disposal problem, and the contamination of rivers and lakes due to the diffusion of detergent.

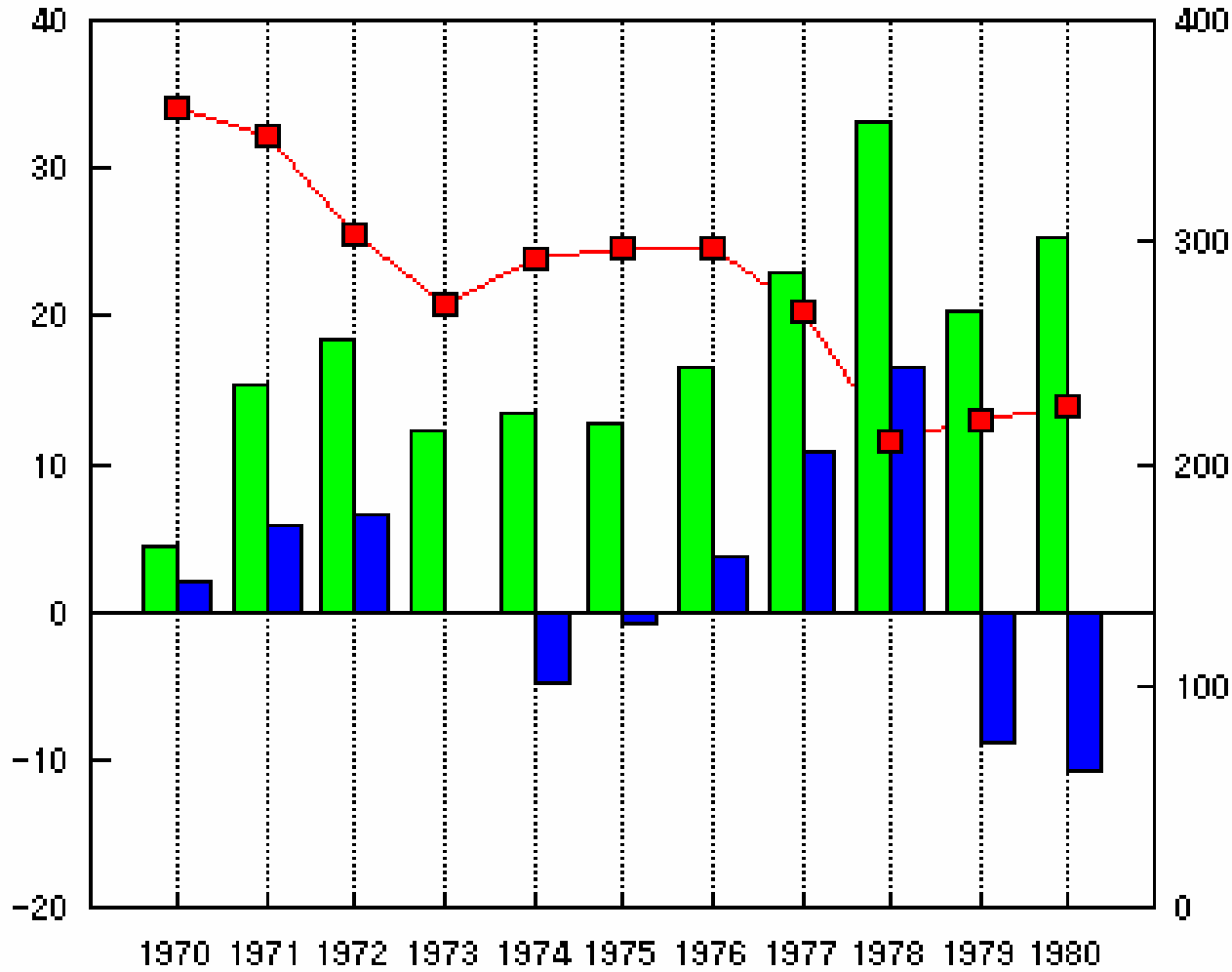
- Due to these issues, the government in 1970 placed a central antipollution-measure headquarters to go ahead with studies on countermeasures thereof, and with the objective to improve the legislation relevant to the environmental pollution, held an extraordinary Diet session, referred to as “ the pollution Diet”, whereby instituted related bills including one which led to the installation of Environment Agency in '71. In other words, a “reexamination of growth-orientation” was schemed.
- Shocks that pull down the footing of the high growth were since then going to sweep Japan in a quick succession.
- To begin with, U.S. President Nixon, whose economic foundation started reeling from getting bogged down in Vietnam War, made an announcement of “the dollar-defense measures.” As the result, Japan was forced to shift the exchange rate of 360 yen to the dollar that had lasted over 20 years, and to appreciate the yen.

Change in International Economic Relations

国際経済関係の変化

Current-Account Balance
Unit: Billion Dollars

経常収支と外貨準備
単位10億ドル



Yen Exchange Rates
to Dollar

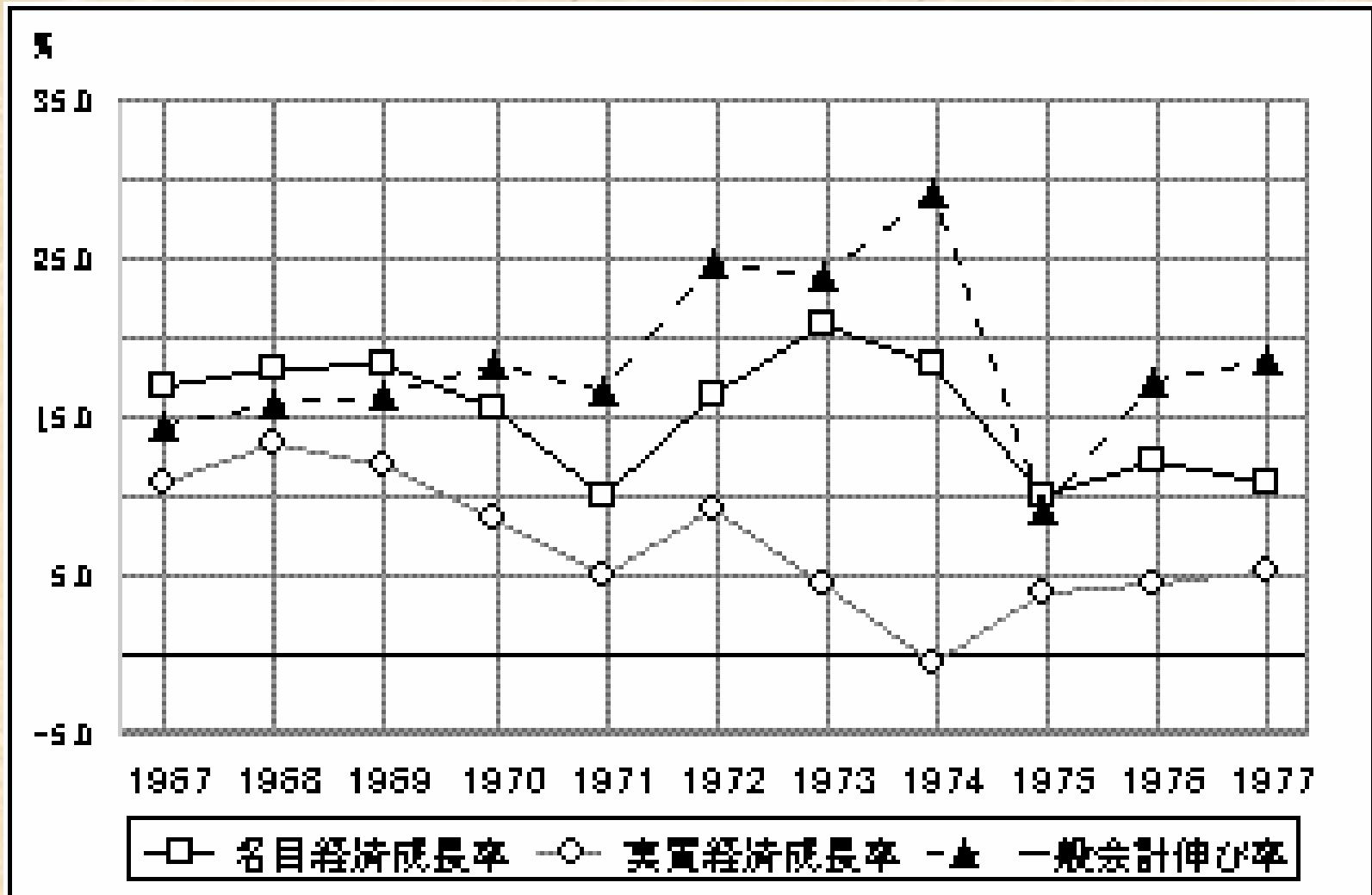
■ 円の対ドル相場 ■ 外貨準備高 ■ 経常収支

Yen Exchange Rates
to Dollar

Foreign Currency
Reserves

Current-Account
Balance

- Faced with the abandonment of the longstanding fixed exchange rate of ¥360 and the necessity to appreciate the yen and shift to the float exchange system, the government set about levitating the economy with proactive financial policies in fear of a stagnation in exports and thereby coming of an economic slowdown.
- Based on the thought that when exports, having shored up the growth of Japanese economy, got blocked, the country would not be able to economically carry on, expansive policies were aggressively adopted on the financial front.
- This decision gained a support partly because the economic growth rate largely fell off in '71 from previous levels around 10%. But these aggressive countercyclic measures, in hindsight, ingenerated an excess liquidity and gave spurs to a boost in prices.

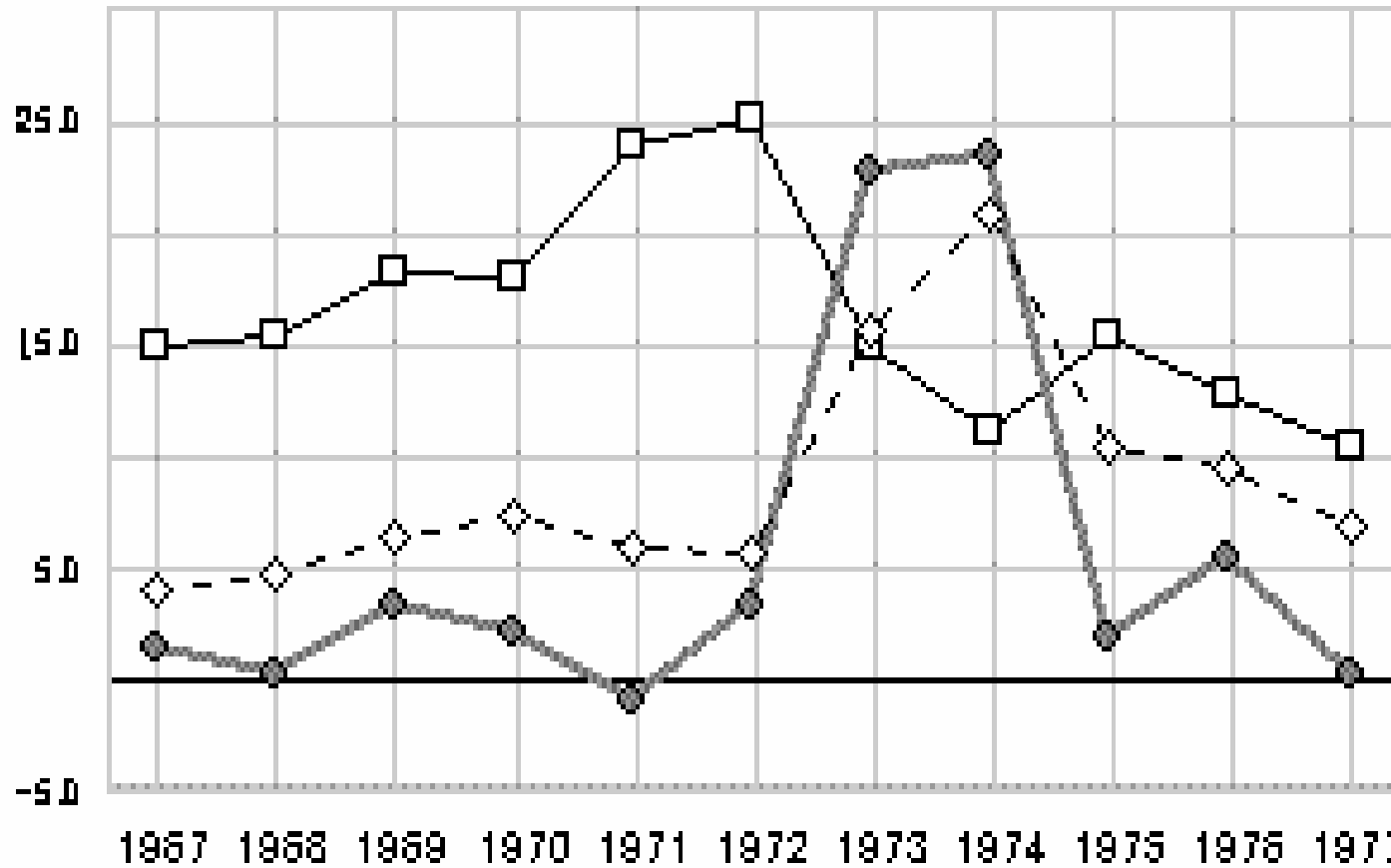


Nominal economic growth rates

Real economic growth rates

Increase rates of general account

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—□— マネーサプライ増加率 —●— 卸売物価上昇率 -◇- 消費者物価上昇率

Money supply increase rates

Rates of wholesale price increase

Rates of consumer price increase

- The rate of increases in the general account expenditure, which had been kept within the parameters of the nominal growth rates, came to somewhat exceed therefrom in 1970, and since '71 the deviance enlarged.
- In the background of the sustainment of the balanced financial administration after the war, except for '65 , there had existed a natural increase in tax revenue under the high economic growth. In the face of growth rates curling downward, when the increase in fiscal spending continued at high rates, a balance of revenue with expenditures was to be lost.
- This policy adopted by running a risk of the accumulation of government bonds failed to boost the real rate of economic growth.

- As if to act in concert with the increase in fiscal spending, the total money supply built up, which, with a time lag somewhere around one year, led to price hikes.
- Prices which bottomed in '71 when the increase in wholesale prices was subdued as prices of traded commodity went down impacted by the yen appreciation, wholesale prices that underwent a stable transition up to then rose sharply over '73, and consumer prices at the level of a little more than 5% shifted to a sharp climb of 20%.
- This change became decisive with the oil crisis sprung from the outbreak of the 4th Middle East War and the “oil strategies” set in motion by Arab oil states, but the price hikes during this period cannot be fully explained solely from the viewpoint of the emergence of the oil crisis.

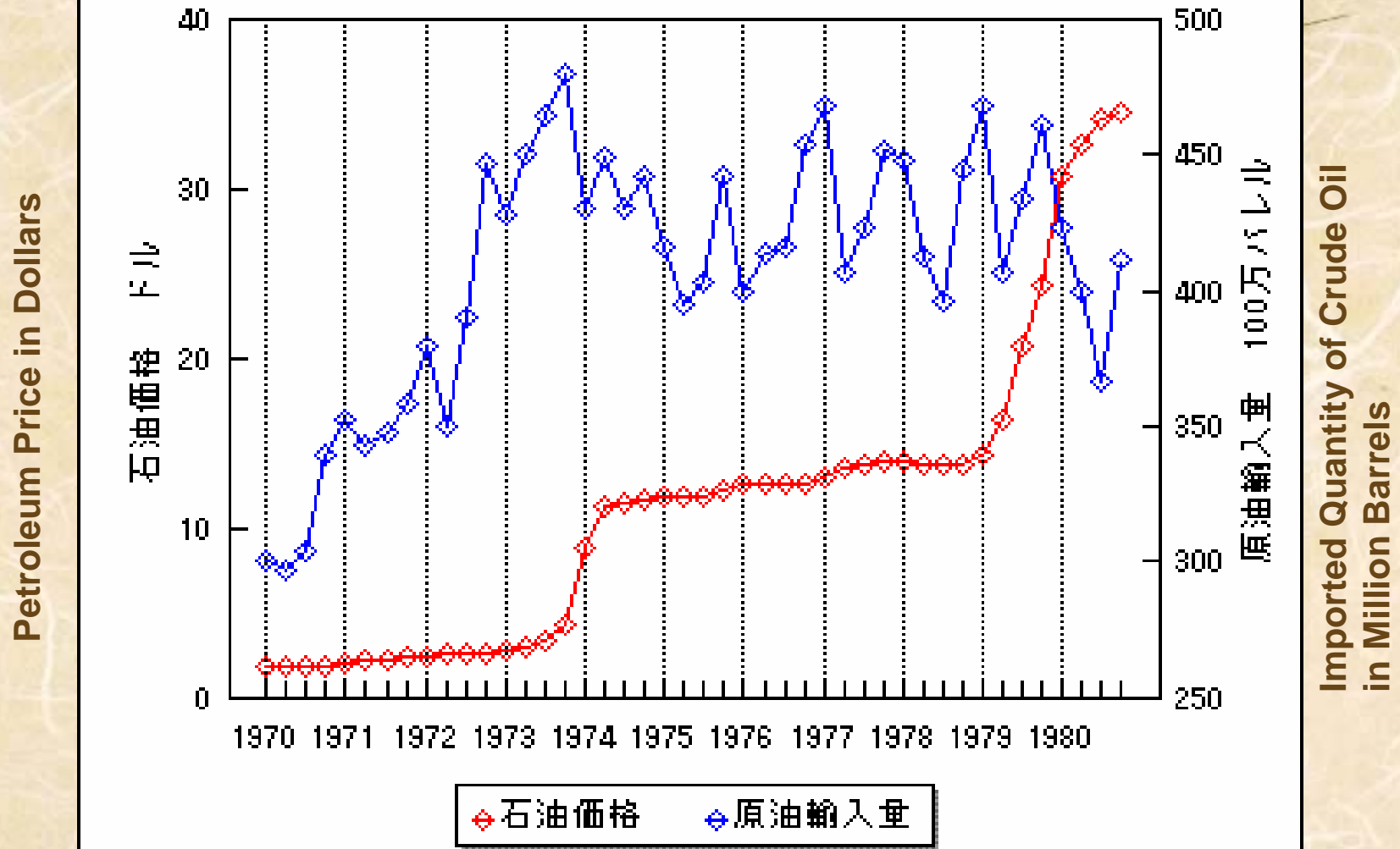
- First, internationally, a worldwide food shortage became obvious in the 70s. The grain market price in Chicago climbed sharply from around the autumn of '72, and it advanced to such an extent that the U.S. in '73 controlled the exports of soybeans, which exerted a grave influence on Japan as well.
- The reason was said to be that USSR bought in a large quantity of grain against a background of the domestic failure of crops. Thus, the grain price showed some triple uprise from the early '72 to '74.
- The price of petroleum also went up gradually during this period; from \$1.8 in '70 to \$2.13 in Feb. '71, \$2.479 in Jan. '72, and to \$2.898 in Apr. '73.

- Whereas domestically, influenced by the Plan for Remodeling the Japanese Archipelago launched by Tanaka Cabinet, speculative investments in land intensified to bring up the land prices, and in the background of price hikes, wages continued to heave up as steeply as 20% and 30%.
- The gist of the archipelago remodeling was: ① industrial re-deployment ② construction of new cities with population of 250,000, and ③ development of high-speed transportation means like Shinkansen bullet train. The plan, assuming an annual economic growth rate of 10% hereafter, included improvements of a wide variety of social infrastructures.
- It included the construction of 10,000-km express ways and 7,000-km Shinkansen bullet trains by '85: Land prices shot through the roof and the inflation accelerated its speed under such an aggressive prospect.
- The land prices in '73 recorded 32% hike versus the prior year. According to the stochastics of National Land Agency, funds for land purchases by corporate bodies in '73 reached 9 trillion yen, of which loans from financial institutions occupied 6 trillion yen.

- This type of situation was derived from proactive financial administration policies after the Nixon shock, and because of an overloaded currency supply purported as “the excess liquidity,” an inflationary trend of Japanese economy was strengthened, which transpired a kind of bubble. In Apr. '73 MITI unearthed that after Aug. '71, funds amounting 950 billion yen flowed into trading firms which sold the dollars at profit subsequent to the Nixon shock, of which 660 billion yen was used as speculative funds headed for purchases of stocks and lands. And coupled with worldwide increases in resource prices, imported goods' prices showed a steep hike of 34% in '73. In summer the same year, i.e. prior to the onset of the oil crisis, the supply shortage became obvious starting with such construction materials as steel products and cement, and the government had to deal with this status by establishing a regulation on “forestalling the market and holding back sales.”

**Transit of
Petroleum Price**
Dollar/Barrel

石油価格の推移
ドル/バレル



Petroleum Price

**Imported Quantity
of Crude Oil**

2 Oil Crisis

- The 4th Middle East War erupted in Oct. '73 generated the oil crisis and put an end to the high growth of Japan that had relied on cheap imported resources.
- When the war started, a general observation was that it would be over in short duration with an overwhelming military muscle of Israel. But its influence became unexpectedly serious.
- For, about 10 days after the outbreak of the war, Arab oil countries, striving to turn the war in their favor, pronounced one-sidedly to restrict their crude oil supply.
- They would export no crude oil at all to the U.S. that was right behind Israel, thus Japan, measured to be close to the U.S., was purported as an unfriendly nation to be faced with a crisis that the oil imports would be cut off.

- Prices of petroleum kept on climbing like \$2.6 in Jan. '73, a little more than \$3 in Oct., then to \$5.1 due to the unilateral warning after the outbreak of the war, and amid a perspective that the supply would stop if nothing was done, it exceeded \$11 in Jan. '74.
- Regarding this critical situation, the domestic response was employed to place a priority on the securing of oil quantity, and to tolerate increases in the oil price. In hindsight, this stance situated the sharp runup of commodity prices impossible to restrain.
- Correspondingly the government, on one hand, embarked on the control of consumption of petroleum, as well as ventured in '74 on antiinflation measures: to watch out for simultaneous price increases, and direct to curb the shifting of raw material prices onto prices of products as much as possible. On another, it boosted an official bank rate by 2% with one sweep up to 9%, and financially corrected the excessive supply of money, and adopted the aggregate demand-control policy from the fiscal administration phase.

- Meanwhile, in a macroscopic picture, through the negative growth in real terms in '74, the growth rate slacked off significantly; in fiscal administration, a rigidification owing to an increasing reliance on government bonds began to be viewed as a problem. And in '73, purported as “the first year for welfare society”, a substantial increase in budgets linked to social welfare was realized including the charge-free medical care for the aged. But right after the budget authorization, “a contestation on the reexamination of welfare” came to the forefront, and a footstep started in the opposite direction under a tone, “Even welfare is not a sanctuary.”
- Microscopically, an influence of the oil crisis pressed forward a cutback on costs by reducing unit energy consumption, leading to an unfolding of the energy conservation, and through this process Japanese corporations quickly got on their way to recover an international competitiveness .

- During this time, an adjustment of employment came to be temporarily necessary by means of layoff and lease of employees, and while cancellations of contracts with outside workers and dismissals of temporary employees spread, the compatibility of employment adjustment and job security was recognized anew as a challenge for both labor and management in large corporations.
- There even exists a ground to assess that the job security in Japanese large corporations became firmly established as an institution in a full-fledged meaning in this time, and to that extent, problems over employment during this period were serious and left a significant imprint on labor-management relations.