

Lecture: Contemporary Economic History of Japan

No. 17

Chapter 3: Japanese Economy in Postwar Reconstruction Period

3-1 Postwar Reform 1: Democratization and Demilitarization

Winter Semester, 2004

Haruhito Takeda

1 Postwar Reform

Democratization and Demilitarization

● 1945

- 8/14: Acceptance of Potsdam Declaration notified
- 8/15: Imperial Rescript on the war end issued
- 9/2 : Instrument of Surrender signed
- 9/6 : Allied Powers' first directive announced (dissolution of the military and naval forces, cessation of ammunition industry, etc.)
- 9/22: U.S. government announced administrative basic policy for Japan at initial stage after the surrender
- 10/4: GHQ directed free discussion on emperor system, release of political prisoners, abolishment of thought police
- 10/5: Higashikuninomiya Cabinet resigned en bloc
- 10/11: MacArthur directed 5 major reforms (women's emancipation, workers' right to organization, liberalization of education, abolishment of arbitrary rule, democratization of economy)

- 10/15: Maintenance of the Public Order Act abolished
- 12/17: Election Law rectified (women's suffrage actualized)
- 12/22: Labor Union Law issued

1946

- 1/1 : Humanity Declaration by Emperor
- 1/4 : Purge of militarists from public service directed
- 9/27: Labor Relation Adjustment Law issued
- 11/3: Constitution of Japan issued

1947

- 1/31: GHQ directed halt of the general strike
- 3/31: Basic Education Law ordained
- 4/7 : Labor Standards Law ordained
- 4/17: Anti-monopoly Law ordained

16 Postwar Reform 1

Democratization and Demilitarization

1945

- 9/22 : U.S. government announced administrative basic policy for Japan at initial stage after surrender
- 10/11: MacArthur directed 5 major reforms (women's emancipation, workers' right to organization, liberalization of education, abolishment of arbitrary rule, democratization of economy)
- 11/6 : GHQ directed dissolution of Zaibatsu (memorandum on dissolution of holding companies)
- 12/7 : Pauley's intermediate reparation scheme announced
- 12/29: Revision on Farmland Adjustment Law for 1st Farmland Reform established (execution 2/1/1946)

1946

- 10/21 : Revision on Farmland Adjustment Law for 2nd Farmland Reform established

1947

- 1/31 : GHQ directed halt of the general strike
- 4/17 : Antimonopoly Law ordained
- 12/18: Economic Decentralization Law ordained
- 12/22: Amended Civil Code issued



Postwar era started from ashes like the lunar surface.





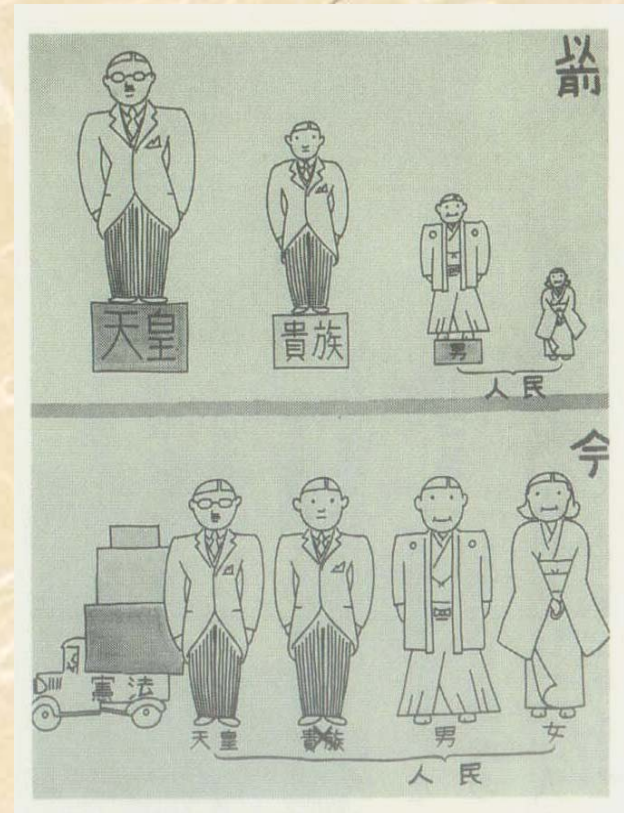
The Daiichi Life insurance Building where GHQ was established

(from Wiki Pedia)





This picture is offered by the public Domain, or the protection period of the copyright has expired This is applied all over the world. (from WIKI pedia)



A enlightenment poster of new constitution GHQ made

1 Damage to National Wealth Due to War Defeat

- On August 14, 1945, as Japan notified the Allied Powers of its acceptance of Potsdam Declaration, the age of war in a span of 15 years that evolved from Manchuria Incident terminated with Japan's lost battle.
- Regarding the damage/loss from any war, the uppermost is human cost: Just during the period of Pacific War, the war dead reached 2.4 million and civilian casualties/missing persons stood at 320,000 people, which signify that, by contrast with the population at 72.22 million in 1941, 3.8% of the national lives were lost.
- An estimated damage to the national wealth amounted to 64.3 billion yen which is equivalent to 25% of one before the outbreak of the war. Compared to 1935, the increase in national wealth was quite negligible. According to the stochastics by Ryoichi Miwa, the war expenditures in Sino-Japanese War and Pacific War amounted to 218.5 billion yen which ran up to 53% of the aggregate GNP at 410 billion yen during the same period.

Damage to National Wealth in Pacific War Period

Prices at War-Defeat Time, in Million Yen

	Amount of Damage	National Wealth before Damage	Damage Ratio	Residual Wealth at War Defeat	Wealth in 1935	Growth Rate (%)
Architectural Structure	22,220	90,435	24.6	68,215	76,275	-10.6
Industrial Machinery & Appliances	7,994	23,346	34.2	15,352	8,501	80.6
Marine Vessel	7,359	9,125	80.6	1,796	3,111	-42.3
Electric/Gas Facilities	1,618	14,933	10.8	13,313	8,987	48.1
Railway/Various Vehicles	1,523	15,415	9.9	13,892	13,364	4.0
Telephone/Telegraph & Aqueduct	659	4,156	15.9	3,497	3,229	8.3
Producer Goods	7,864	32,953	23.9	25,089	23,541	6.6
Household Furniture/ Goods	9,558	46,427	20.6	36,869	39,354	-6.3
Others	5,483	16,340	33.6	10,857	10,389	4.5
Total	64,278	253,130	25.4	188,852	186,751	1.1

Name of Productive Facilities	Unit	Capacity of Productive Facilities in 1937	Maximum Production Capability During War		Capability of Productive Facilities at War Defeat	C/A	C/B	Remark
			Year (19-)	Capability of Productive Facilities				
		A		B	C			
Pig Iron	1000 t	3,000	44	6,600	5,600	1.87	0.85	
Rolled Steel	1000 t	6,500	44	8,700	7,700	1.18	0.89	
Copper	t	120,000	43	144,000	105,000	0.88	0.73	
Lead	t	27,600	43	48,000	48,000	1.74	1.00	
Zinc	t	57,900	43	74,000	49,000	0.85	0.66	
Aluminum	t	17,000	44	127,000	129,000	7.59	1.02	
Magnesium	t	1,800	44	4,400	4,500	2.50	1.02	
Petroleum Refinery	1000 kℓ	2,320	42	4,157	2,130	0.92	0.51	*Crude oil refinery
Machine Tool	unit	22,000	40	60,134	54,000	2.45	0.90	*Amount actually produced

Name of Productive Facilities	Unit	Capacity of Productive Facilities in 1937	Maximum Production Capability During War		Capability of Productive Facilities at War Defeat	C/A	C/B	Remark
			Year (19-)	Capability of Productive Facilities				
		A		B	C			
Caustic Soda	1000 t	380	41	723	661	1.74	0.91	
Soda Ash	1000 t	600	41	889	835	1.39	0.94	
Ammonium Sulfate	1000 t	1,460	41	1,979	1,243	0.85	0.63	
Carbide	1000 t	915	41	379	478	0.52	1.26	
Lime Nitrogen	1000 t	450	41	356	352	0.78	0.99	
Super-phosphate	1000 t	2,980	41	2,846	1,721	0.58	0.60	
Cement	1000 t	12,894	41	9,621	6,109	0.47	0.63	

Name of Productive Facilities	Unit	Capacity of Productive Facilities in 1937	Maximum Production Capacity During War		Capability of Productive Facilities at War Defeat	C/A	C/B	Remark
			Year (19-)	Capability of Productive Facilities				
		A		B	C			
Cotton Spinning	1000 spindles	12,165	41	13,796	2,367	0.19	0.17	
Woollen Spining	1000 spindles	1,549	39	1,628	375	0.24	0.23	
Shappe	1000 spindles	462	38	463	196	0.42	0.42	
Art Silk	1000 lb.	570,000	37	570,000	88,600	0.16	0.16	
Staple Fiber	1000 lb.	451,000	41	813,000	184,000	0.41	0.23	
Woolen Card	Card	684	40	733	373	0.55	0.51	
Cotton Loom	unit	362,604	41	393,291	113,752	0.31	0.29	
Wool Loom	unit	29,185	41	31,815	9,802	0.34	0.31	
Silk/Art Silk Loom	unit	356,119	42	343,845	135,582	0.38	0.39	
Art Silk Pulp	1000 Engl. tons		40	404	201		0.50	
Paper Pulp	1000 Engl. tons		40	1,329	705		0.53	
Foreign Paper	1000 lb.		40	2,617,643	1,183,000		0.45	
Hardboard	1000 lb.		40	1,227,040	584,000		0.48	
Flour Milling	bl.	118,072			58,431	0.49		

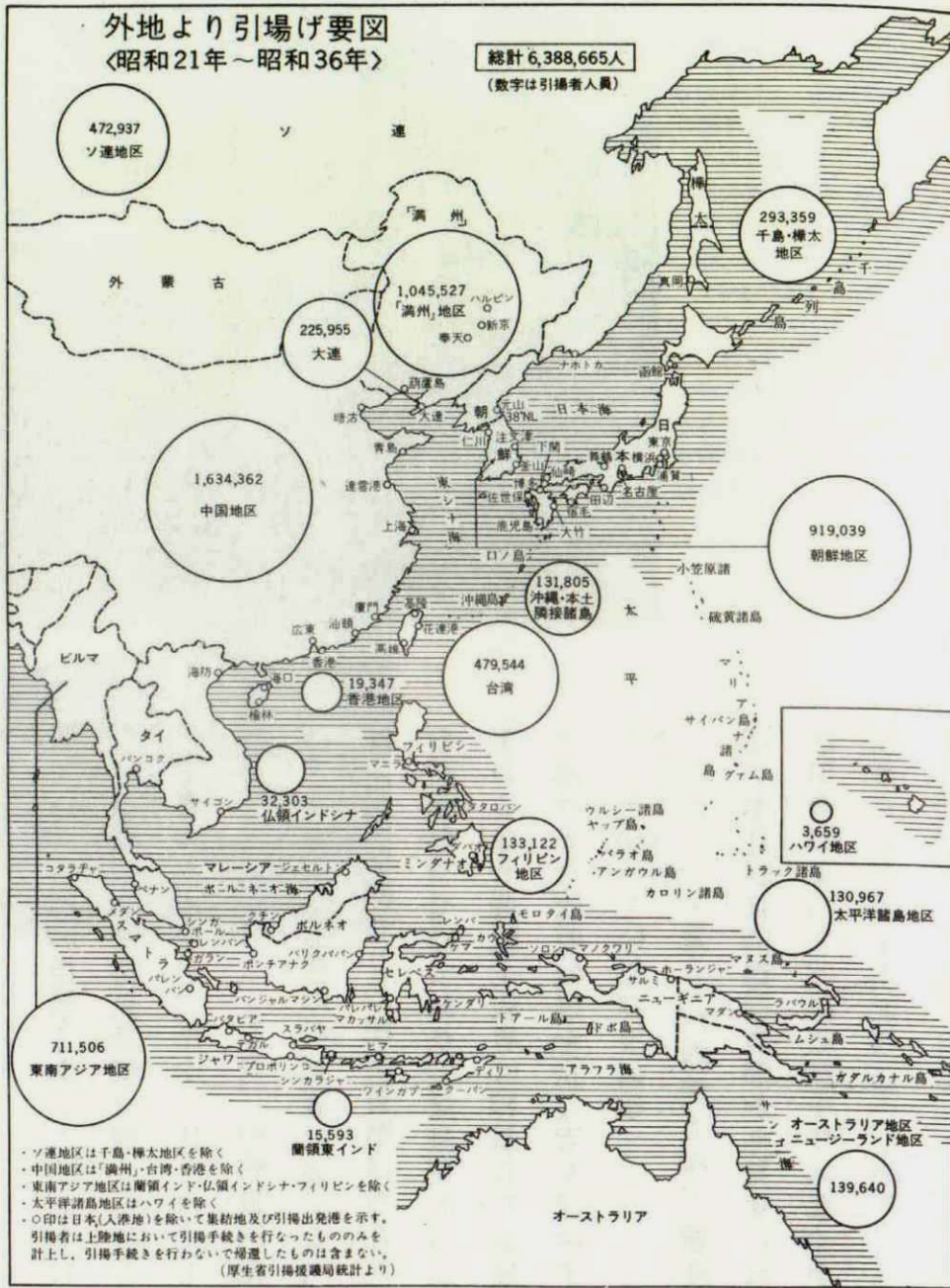
Production Capability at Time of War Defeat

		Maximum Before 1944	Capability at War-Defeat Time	Residual Ratio	Capacity at 1941End	Growth Rate
Hydroelectric Power	1000 kw	6,074	6,233	102.6	5,368	16.1
Ordinary Steel Product	1000 t	7,998	8,040	100.5	7,506	7.1
Aluminum	month/t	11,100	8,350	75.2	7,240	15.3
Machine Tool	t	190	120	63.2	110	9.1
Petroleum Refinery	1000 kℓ	3,739	1,443	38.6	2,359	-38.8
Soap	1000 t	278	99	35.6	278	-64.4
Cotton/Staple Fiber Spinning	million spindles	13.8	2.8	20.3	13.8	-79.7
Cotton Fabric	1000 units	393	123	31.3	393	-68.7
Bicycle	1000 units	3,600	720	20.0	2,880	-75.0

- The breakdown of the residual national wealth indicates that, in contrast to the industrial machinery and electric/gas facilities showing large increases, the damage was biggest in marine vessels, followed by architectural structure and household furniture/goods that were on decreases. Unbalance among sectors is more clearly seen in the table indicating changes in production capabilities.
- More specifically, hydroelectric power facilities and steel-products production facilities not only sustained the same level of capabilities as in the peak time during the war, but even increased them at the war-defeat time, whereas in such civilian-goods sectors as soap and cotton products, a substantial compression in production capabilities transpired. In other words, the heavy chemical industrial sector, reinforced by the wartime economy, maintained the high production capability to match the one in the prewar period, but a huge discrepancy arose in the production capability of the light industry sector required to produce civilian goods.

- Since the damage by aerial attacks was done intensively to military facilities, the decline in production capabilities of civilian goods was the result of the wartime mobilizations implemented by the Japanese own hands. These residual conditions of production capabilities were a part of the main causes to bring about a rampant inflation during the postwar reconstruction time, as well as the foundation of the heavy chemical industrialization which unfolded during the high-growth period in the postwar era.
- In this regard, however, inasmuch as the American occupation policies for Japan included an idea even to demolish facilities for heavy chemical industries on the basis of the strict reparations in kind, leaving in Japan only light industries focusing on consumer goods, and to maintain the possibility of the latter in the above was solely dependent on whatever consequence the reparation problem resulted in.

Demobilization

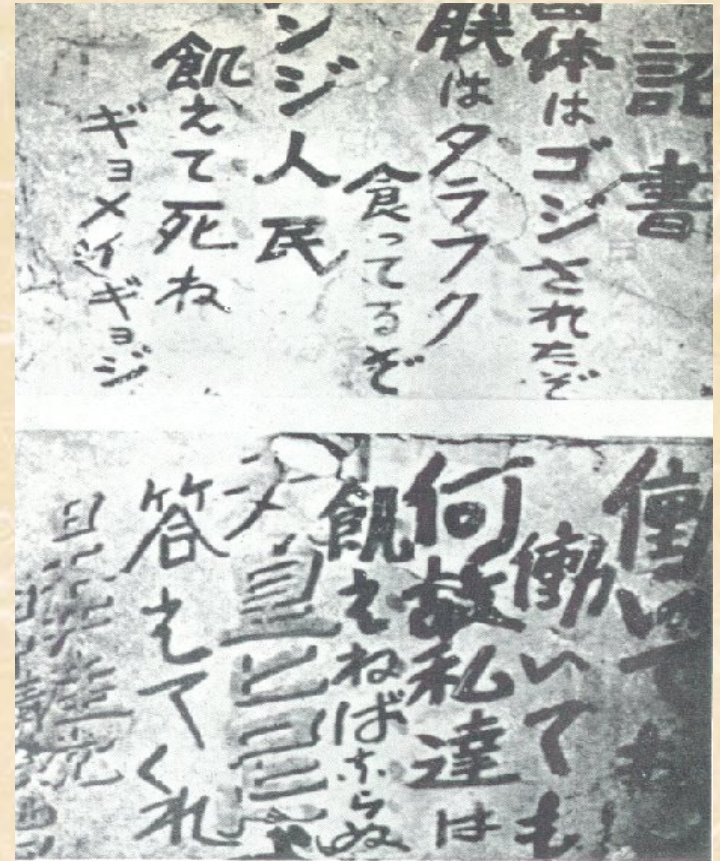


Families welcomed demobilization servicemen who came from Siberia (Source) war damaged revival memorial of Sendai city

Haruhito Takeda

Conditions for Postwar Reconstruction

- Increase in population by the demobilization
- Removal of residual production capacities for the sake of the reparations in kind
- Growing social unease--- escalation of labor disputes
- Inflation due to supply shortage, Food shortage



Reparations Plan

Contemporary Economic History of Japan 2004

	Unit	Capability in Being (shown in Strike's report)	Pauley's Final Proposal (announced Feb, 1948)		2nd Chapter in Strike's Report (Feb, 1948)		Johnston's Proposal (May, 1948)	
			Residual Capability	Slighing Capability	Slighing Capability	Appraised Value of Slighing Objects	Slighing Capability	Appraised Value of Slighing Objects
Pig Iron	meter ton	4,520,000	500,000	5,000,000				
Steel Ingot	"	8,030,000	2,250,000	9,000,000				
Nitric Acid	"	137,240	12,500	240,000	106,945	9,648,000	83,000	8,000,000
Caustic Soda (electrolytic method)	"	128,800	44,000	195,000				
Soda Ash	"	493,000	300,000	450,00 - 500,000				
Artificial Rubber	"	900	all to sligh		900	10,236,000	750	10,000,000
Machine Tool	Retained	unit	155,000					
			500,000 - 600,000	approx. 600,000				
	New Make	"	36,970	10,000	10,000			
Thermal Power	kw	2,272,860	2,000,000	2,000,000				

		Unit	Capability in Being	Pauley's Final Proposal (announced Feb, 1948)		2nd Chapter in Strike's Report (Feb, 1948)		Johnston's Proposal (May, 1948)	
			(shown in Strike's report)	Residual Capability	Slighing Capacity	Slighing Capacity	Appraised Value of Slighing Objects	Slighing Capacity	Appraised Value of Slighing Objects
Marine Vessel	Retained	gross ton	1,300,000	1,500,000	869,000				
	New Make	"	801,100	10 large shipyards, 12 small shipyards, 548 for wooden boat	30-40 locations incl. large docks	385,000	118,138,000	162,000	50,000,000
	Fix	"	7,219,840			1,122,450			
Petroleum	Refining	bbl.	9,807,550	daily output at 40000					
	Stock	"	7,293,000	10,000,000					
Aluminum	Puddling	meter ton	98,100	to sligh all factories incl. ones for scrapping					
	Process	"	100,000			50,000	21,688,000	50,000	21,688,000
Magnesium		"	680	all to sligh		480	12,559,000	480	12,559,000
Primary War-Supplies Facilities					approx. 600,000		1,475,887,000		560,000,000
Total incl. Others							1,648,156,000		662,247,000

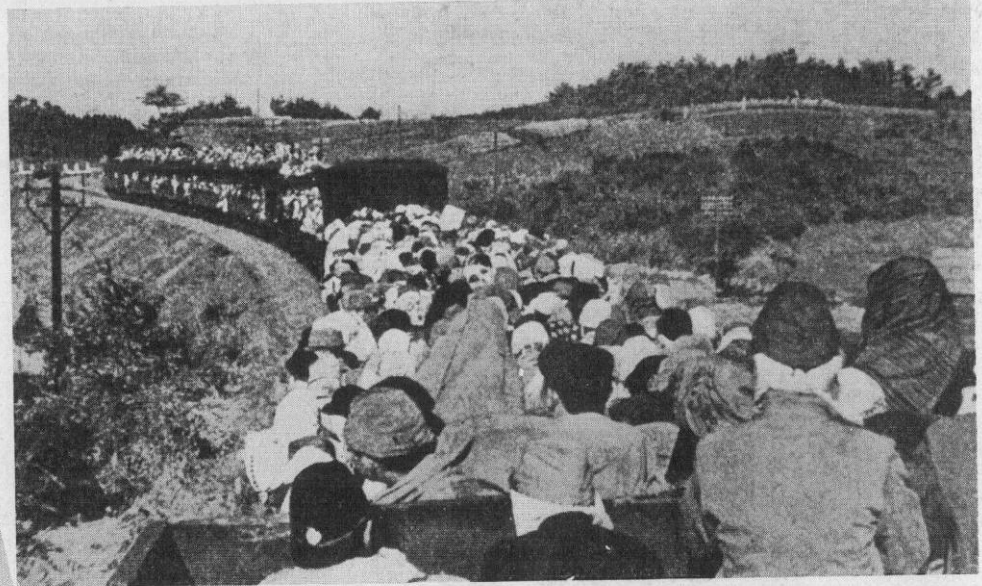
Intensified industrial strike



Poster of General Strike
(Source) Institute of Ouhara



ヤミ市の活況



いもの買出列車 (1945年11月)

Food difficulty and going somewhere to buy foods

(Source above two): Japanese Contemporary History Studies, *One hundred years of pictures vol17*
(Source under) Memorial of Syouwa;



昭和館蔵

2 Advance of Demilitarization and Democratization

- Among the objectives denoted in Potsdam Declaration by the Allied Powers, the first one was the demilitarization.
- While the Declaration proclaimed for Japan to disarm (9 items), transform its political structure, i.e. democratization (10 items), and to cut down territories by the forfeit of colonies (8 items), its specific measures not only covered the disarmament which was immediately implemented after the end of the war, but also extended over the slighing of military-factories' facilities that constituted the economic infrastructure of the garrison state (11 items), Emperor's Humanity Declaration, and the formulation of the Constitution of Japan.

Potsdam Declaration (Proclamation by 3 countries of the U.S., China and Great Britain on terms for Japanese surrender, issued at Potsdam, Jul. 26, 1945, joined by USSR on Aug. 8)

- **1. We-the President of the United States, the President of the National Government of the Republic of China, and the Prime Minister of Great Britain, representing the hundreds of millions of our countrymen, have conferred and agree that Japan shall be given an opportunity to end this war.**
- **4. The time has come for Japan to decide whether she will continue to be controlled by those self-willed militaristic advisers whose unintelligent calculations have brought the Empire of Japan to the threshold of annihilation, or whether she will follow the path of reason.**
- **5. Following are our terms. We will not deviate from them. There are no alternatives. We shall brook no delay.**
- **6. There must be eliminated for all time the authority and influence of those who have deceived and misled the people of Japan into embarking on world conquest, for we insist that a new order of peace, security and justice will be impossible until irresponsible militarism is driven from the world.**

- **7. Until such a new order is established and until there is convincing proof that Japan's war-making power is destroyed, points in Japanese territory to be designated by the Allies shall be occupied to secure the achievement of the basic objectives we are here setting forth.**
- **8. The terms of the Cairo Declaration shall be carried out and Japanese sovereignty shall be limited to the islands of Honshu, Hokkaido, Kyushu, Shikoku and such minor islands as we determine.**
- **9. The Japanese military forces, after being completely disarmed, shall be permitted to return to their homes with the opportunity to lead peaceful and productive lives.**
- **10. We do not intend that the Japanese shall be enslaved as a race or destroyed as a nation, but stern justice shall be meted out to all war criminals, including those who have visited cruelties upon our prisoners. The Japanese Government shall remove all obstacles to the revival and strengthening of democratic tendencies among the Japanese people. Freedom of speech, of religion, and of thought, as well as respect for the fundamental human rights shall be established.**

- 11. Japan shall be permitted to maintain such industries as will sustain her economy and permit the exaction of just reparations in kind, but not those which would enable her to re-arm for war. To this end, access to, as distinguished from control of, raw materials shall be permitted. Eventual Japanese participation in world trade relations shall be permitted.
- 12. The occupying forces of the Allies shall be withdrawn from Japan as soon as these objectives have been accomplished and there has been established in accordance with the freely expressed will of the Japanese people a peacefully inclined and responsible government.
- 13. We call upon the government of Japan to proclaim now the unconditional surrender of all Japanese armed forces, and to provide proper and adequate assurances of their good faith in such action. The alternative for Japan is prompt and utter destruction.

- In Oct., 1945, as Supreme Commander of the Allied Powers, MacArthur issued the directive on the 5 major reforms: women's emancipation, recognition of workers' right to organization, liberalization of education, abolishment of arbitrary rule, democratization of economy. The goal of these was, by actualizing a fully democratic society, to transform Japan to a nation that would not make its reappearance in the international society as a state engaging in warfare.
- The realization of such reforms, compared to the structure of Japan's economic society before WWII, meant to largely change its prewar dimensions typified by the financial structure facing a heavy burden of military expenditures, the extensiveness and mightiness of the regulatory authorities, and the occupancy of colonies. The structural discontinuity due to the reforms was clear-cut in this context: One must abstain from one-sidedly overvaluing some continuity in corporate procedures, or remaining of the wartime control enactment, at a microscopic level.

Initial Policy Toward Japan

1. Economic Demilitarization

- Complete the removal of equipment/facilities for the army/military complex and the ban on war production, and the ban on research/development activities concerning war capability
- Restriction on Japan's future heavy industries within limits of peaceful demand
- Removal of the indemnifying facilities in line with this objective
- Switch of the production to one for civilian use

2. Promotion of Democratic Force

- Establishment of a democratic foundation by encouraging organizational developments in labor, industry and agriculture
- Ban on those who do not lead Japan's economic activities solely toward peaceful objectives to stay in key positions in the economic circles
- Support for plans to liquidate industrial/financial combinations which controlled most part of commerce and industries

16-3 Formation of U.S. Occupation Policy Toward Japan

- In Aug., 1942, the U.S. formed East Asian Policy Study Team and began to study postwar transaction policies toward Japan. It is said that, in this body, the territory problem and the issue on the Emperor system were taken up, and that fairly intrusive discussions were conducted by the end of 1943.
- For example, the prototype of GHQ draft submitted in the process of formulating the Constitution of Japan was the writing put together by H. Borton of Department of State that contained a discussion on utilizing and restructuring the existing governing systems including the Emperor system, and recommendations ①to grant the legislative body complete rights to budgetary decisions and the floor for constitutional amendments, ②not to approve the maintenance of armed forces, and, even in case of approving an organization of an army in future, to abolish active military officials assuming ministerial positions of military/naval forces, but to let them be civilian personnel, ③to reinforce basic human rights, and ④to reform the court of law.

- After the occupation started, based on these developments, the writing of Oct.1945, as the essential features for democratization policies for Japan, even included such additional articles as the expansion of voting right, the sovereignty of the people, the parliamentary cabinet system, the revision of the Constitution or formulation of a new constitution, the reform of the Emperor system (which was to be finalized by the free will of the people of Japan as per Potsdam Declaration, but was suggested either to be abolished or democratically reformed), and the local autonomy. A fundamental thought was evolving into the revision of the Constitution.



A enlightenment poster of new constitution GHQ made

- Why was the format of an indirect rule, instead of a direct rule, selected?
- Why did the occupation of Japan last longer compared to that of Germany?
- Germany May 1945: Surrender
- Feb. 1947: Paris Peace Treaty
- May 1949: Federal Republic of Germany formed
- Sep. : German Democratic Republic formed
- Japan Aug. 1945: Surrender
- Sep. 1951: San Francisco Peace Treaty
- Apr. 1952: Independence

- Based on a fundamental consideration not to let Japan be a threat to the U.S. again, the occupation plan was finalized through the process of studies in which costs for the occupation and reformation were estimated and possible measures to reduce them were examined.
- In this regard, the U.S. decided that an indirect rule leveraging the Emperor system and the wartime bureaucracy system would cost it less in terms of personnel and expenditures required to be injected.
- Meantime in Germany, amid a momentum gathering for the cold war, the priority was placed to provide independent configurations by fixing the divide, instead of entrenching the occupied territory in the side of own camp, or, for this reason, without a choice of a new government based on an independent will of the ruled people.
- Japan, contrarily, was the case of a de facto single-handed occupation, and it turned out to be a desirable choice for the U.S. that the country had an unrestricted usage of the Japanese islands as the forefront military base under the time of Korean War.