EE463 GLOBALIZATION AND INTERNATIONAL DEVELOPMENT

Semester 2/2020 (20 January - 19 May 2021)

Good work on the overview and key issues sections. The govt policies/strategy sections need to be more specific in terms of what actual policies /decrees/ regulations were issued to address the issues. On lessons learned and conclusion, pls make

Public Debt and Poverty Rate in Japan Post-World War II

sure that these flow from discussion from previous sections

GROUP #9

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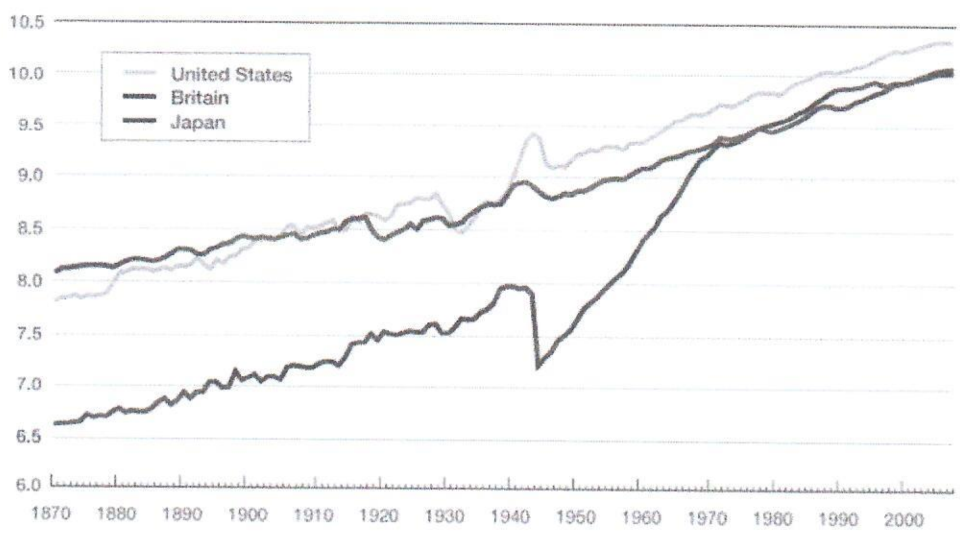
Overview

The public debt and poverty rate in Japan after World War II or as known as Japanese economic miracle is known as Japan's record period of economic growth between the post-World War II era to the end of the Cold War.

This economic miracle is the result of post-World War II Japan and West Germany benefiting from the Cold War. It happened primarily because of the economic interruption of the Japanese government and somewhat due to the aid and assistance of the U.S. Marshall Plan.

The graph below shows a comparison between changes in real per capita gross domestic product in Japan, the United States and the United Kingdom between 1870 and 2008. The values used are natural logs of each country's per capita Gross Domestic Product in US dollar purchasing power equivalents in 1990. During the year of Japan's World War II surrender in 1945, the country has Gross Domestic Product per capita of 1,346 dollars in 1990 US dollars, merely 11 percent of the United States statistic for the same year, and only 47 percent of Japan's per capita income in 1940, the year before the nation entered World War II.

Growth in Real Per Capita GDP in Japan, Britain, and the US, 1870–2008
(Natural log of per capita GDP in 1990 international Geary-Khamis dollars)



Source: The Maddison-Project
(http://www.ggdc.net/maddison/maddison-project/home.htm, 2013 version).   nippon.com

Figure 1

Good use of graph

In the second half of the nineteenth century, Japan embarked on a sweeping policy of modernization in pursuit of equality with the industrial West, under the slogan "Enrich the country, strengthen the military." The economic successes of this campaign, which proceed through the prewar period, is reflected in the rise in Japan's per capita Gross Domestic Product between 1870 and 1940. Japan was steadily catching up with the Kingdom and the United States, two of the world's most advanced industrial economies, as the graph shows. On the eve of the Pacific War, Japan's per capita Gross Domestic Product increased from 23 percent of the United Kingdom's and 30 percent of the United States' in 1870 to 42 percent of the United Kingdom's and 41 percent of the United States'.

Before the defeat, the government had continued to issue massive amounts of war bonds to finance its military operations. Called "War Indemnity Debt", money borrowed by the wartime government pledge to reimburse its citizens in the form of a contract, accumulated. By 1945, Japan's total government debt had risen to about 200 percent of its Gross Domestic Product. The scale of debt was clearly too massive for the postwar government to repay fully. As a result, the government enacted the War Indemnity Special Tax immediately after the war, effectively voiding its obligations to pay the outstanding war indemnities. More precisely, the government paid off all of the outstanding debt by levying 100 percent tax on war indemnity payments.Furthermore, the government pressured citizens to exchange old yen currency for new yen currency, froze bank deposits, and launched a property investigation for confiscation purposes. In the meantime, the Bank of Japan (BOJ) printed massive quantities of banknotes. As a result, inflation intensified, turning war bonds into worthless scraps of paper.

Japan's government debt has now surpassed 200 percent of Gross Domestic Product, surpassing the amount seen shortly before World War II's defeat. While government debt exceeding 200 percent of GDP does not necessarily indicate that the country is on the verge of fiscal collapse, the likelihood of such an occurrence is undeniably increasing.

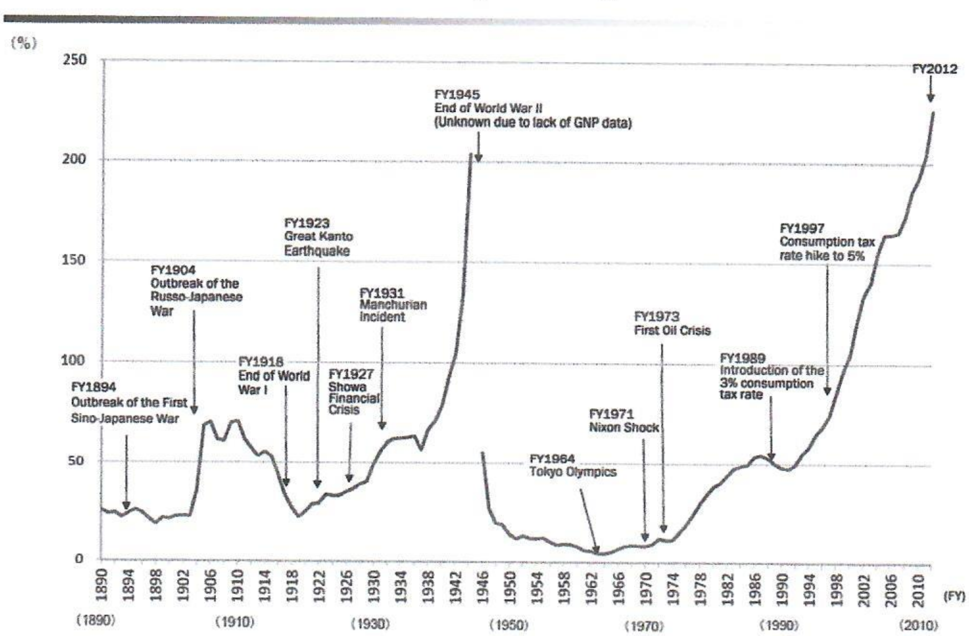


Figure 2

Identification of Key Issues

Japan has lost control of sustaining their public debt during the 1930s. It started when they needed goods during the war and needed fiscal expenditure after the war. During the great depression, it is hard to finance their expenditure which results in high foreign and domestic debts. The key issues of sustaining the public debt will be discussed in this section.

To begin with, we would like to introduce the key person who has helped Japan through recessions during the 1930s. Takahashi Korekiyo, born in 1854, was the eleventh prime minister of Japan and has been Japan's finance minister for five times before he was assassinated by the weapons of the military in 1936. This was argued by Nakamura to be the main reason why Japan was unable to sustain its public debt since the full control of fiscal policy by the military in 1936. Takahashi Korekiyo was considered as Japan's Keynes since he helped recover Japan's economy during the Great Depression. Takahashi's famous economic policies are listed accordingly, the abandonment of the gold standard and export promotion, low interest rates, and deficit spending financed by the sale of bonds through the Bank of Japan.

Takahashi's first policy of export promotion devalued the domestic currency in order to help stimulate their exports. The nominal and real exports of Japan rose significantly compared to the preceding years. This results in a rise in the gross national product of Japan. The second policy, lowering interest rates, was said by him to be one of the best policies to use during a recession. This causes Japan's real gross domestic fixed capital to rise significantly. Last but not least, deficit spending financed by the sale of bonds, this increased the government expenditures and accounted for almost 30 percent increase in real gross domestic product.

Although Takahashi Korekiyo has contributed to helping Japan in many ways during recessions, he was assassinated by the military because of his policy to cut government spendings (military expenditures) in February 1936, which after that led to a significant rise in inflation. "The political institutions gave the military an effective veto in the budgetary processes. The military had the authority to create its own spending plan without consulting other Cabinet members or budgetary branches, and then negotiate with the MOF to finalize the annual budget. If the military disagreed with cuts in military spending, it could reject the budget at the Cabinet meeting (SHIZUME, M. 2011)." This could be one of the reasons why Japan has been struggling with sustaining its public debt for a long time.

Moreover, we will be talking about the worldwide perspective of things. International gold standard system was mistakenly blamed as one of the factors that Japan could not sustain their public debts. During that time, the international gold standard system was a measurement by participating countries to fix the prices of their domestic currencies in the value of gold. National money was converted into gold at the fixed price. It was also blamed for the main reason that caused the great depression.

The international gold standard ran into a problem during World War I. The United States and other European countries decided to suspend the international gold standard; therefore, they could print more money or basically increase the money supply to pay for their military expenditures. This was the main reason why people think that the gold standard caused the great depression back then. Back to Japan, it was in the 1930s, the military did not want to limit military expenditures, basically to maintain gold parity. At that moment in 1931, The international gold standard fell into chaos after Great Britain left the gold standard. Accessing the international financial markets was in chaos and that committing to the gold standard has dragged down the economy of Japan. Thus, leading to the departure of Japan from the gold standard in the late 1931.

Japan's government stimulated the economy beyond their budget constraint. During the 1930s, Japan had no fiscal discipline. This is because of the military's effective veto over budgetary processes stated earlier. "The budgetary process during the 1930s failed to restrict fiscal expenditure, and there was no longer any mechanism for monitoring Japanese public finance (SHIZUME, M. 2011)." At that moment in time, Japan could not sustain their public debt; therefore, they have been introduced to a method of selling government bonds by the Bank of Japan. This did not help out Japan's economy from the great depression but just helped it worsened at a slower rate. Without fiscal discipline, things are not going to get better.

To sum up, the international gold standard system is not the one that leads countries into the great depression. However, it is how the countries use the system in a wrong way. Japanese military has huge power in vetoing budgetary processes and has no fiscal discipline. Thus making Japan struggling to sustain their public debts for a good period of time.

Good identification of issues

Government/State Strategies, Policies and Legislation

After the defeat of Japan in World war II, the Japanese state was led by the occupation and rehabilitation by the United states of America (General Douglas A. MacArthur). Therefore, it caused a political, economic, and social dimension. The Supreme Commander for the Allied Powers or SCAP during 1945-1952 was an important point and development in Japanese especially the political dimension, economic dimension, and social dimension. The ending of world war II Japan was disarmed and its empire was dissolved, the form of government changed to a democracy, and its economy and education system reorganized and rebuilt especially increasing the poverty rate among the population.

Firstly, in the political dimension, The SCAP was demanding constitutional reform in Public security section9 in Japanese. The name given as Public Safety Section 9 was composed of former military officers, forensics scientists, and police detectives. The change of government state was more effective to cope with economic recession post world war II. The policies were "Economic Democracy" in Japan. Moreover, the policies were Anti-Monopoly Act to promote the democratic national economy to assure that consumers were just equal.There are many changing the country's social and political structures. However, in 1868 there was revolution to return the power of the Emperor in Japan after removing the Tokugawa Shogunate, the restoration of power to the Emperor who had been excluded from the government for many years.

Secondly, in economic terms, the effective fiscal policies of the government caused the economic recovery from recession and induced many investors to invest due to low interest rates. In the labor market, the cost of labor was cheaper. It will induce a high investment rate and decreased unemployment rate of Japan. (When there is more investment rate saving and profit will increase more gradually by mechanism adjustment). Furthermore, the policies should monetary stabilization be the combination of macroeconomic stabilization policy and free market principle preferable to the government intervention. Monetary stabilization on economic development affected Japan's economic growth from the 1950s to 1960s. The other policies that should be discussed are "land reform policies". Post world war II in October 1946s was very reflected in SCAP's policy. The land reform policies induced development of the economy during economic recession. It meant that land in excess of the limit held by any land owners were sold to farmers at extremely cheap prices. There are positive impacts of the reform in the agricultural sector in Japan. New farmers with land obtained more enthusiasts to work, finally it led to an increase in agricultural productivity step by step.

Lastly, in social dimension, the social dimension is a sustainable development which concerned primarily with poverty reduction, social investment, safe, and caring communities. In 1946s, there reformed many policies like education that emphasizes loyalty and nationalism to peace and democracy. Especially changed in the constitution of Japan was the emperor shall be the symbol of state and of the unity of the people, deriving his position from the will of people with whom resides sovereign power.

could be more specific.

However, in 1980 Japan's economy was recovering and growing steadily, but finally the economic bubble in 1989s, causing the country's economy to lose. The government of Japan issued a policy to solve financial problems by borrowing money from the bank of Japan (BOJ) to reduce losses and keep borrowing over the past 30 years. Thus, causing the public debt to increase every year. (The government debt 1987=73% 1997=101% 2007=183% 2017=253%). Bank of Japan had a policy to reduce the interest rate to near zero, with policy interest currently at -0.1%. That can be done because most creditors are investors in Japan and BOJ induced people to buy bonds which are low risk assets for decreasing interest rates. As a result, from this policy, Japan had no risk of capital outflows and can maintain low interest rates.

From my opinion, the economy of Japan has been in place for a time while the government has increased expenditure. For the next 20 years or 30 years even if interest rates will be at this level the tax revenue will not be enough to pay the borrowed interest. The Japanese government will be at risk of debt settlement in the future. Hence, My recommended policy is expansionary fiscal policy in order to increase tax income to decrease debt and reduce expenses for borrowing. However, it may not be as effective as Japan has been an aging society since the 1970s resulting in lower consumer spending. Therefore, the government policy should be concentrated on the tourism sector in order to allow foreigners to travel for money circulation in Japan's economy.

Avoid using "we" in reports

Lessons Learned

We have learnt about public debt and poverty rate in Japan during the post World War II. After World War II, Japan's economic growth has been increasing with the decrease of poverty rate. We can see this fact in the graph of growth in Real Per Capita GDP in Japan, Britain, and the US in 1870-2008. In terms of public debt, we have seen that Japan had their high public debt during the 1930s. We have analysed this fact of why it happened and who helped Japan get through the recession. We found that Japanese military has huge power in vetoing budgetary processes and has no fiscal discipline. Therefore, this makes Japan struggling to sustain their public debts for a good period of time.

In addition, we found that after the defeat of Japan in World War II, there was some change in the political aspect, economic aspect, and social aspect. It is because Japan was led by the occupation and rehabilitation by the united States of America.

We have analyzed this change into three points in the Government/State Strategies, Policies and Legislation paragraph. For example,The Supreme Commander for the Allied Powers or SCAP during 1945-1952 was an important point and development in Japanese. The ending of World War II Japan was disarmed and its empire was dissolved, the form of government changed to a democracy, and its economy and education system reorganized and rebuilt especially increasing the poverty rate among the population.

Furthermore, we also learnt about Japan's economy after 1980. It is that in 1980 Japan's economy was recovering and growing steadily, eventually having the economic bubble in 1989s, making the country's economy to lose.

To conclude about the lesson learned, we learned why Japan has high public debt and how their leader solved this problem. We also learned what makes Japan's economy grow in a sustainable way.

Make sure the lessons learned section flows from the issue and govt policy sections.

Conclusion

During the period of the post-World War II to the end of the Cold War, Japan's economic growth has risen significantly to eventually catching up with the United Kingdom and the United States, two of the world's most advanced industrial economies. In fact, Japan's per capita Gross Domestic Product increased from 23 percent of the United Kingdom's and 30 percent of the United States' in 1870 to 42 percent of the United Kingdom's and 41 percent of the United States'.

~~By the way,~~ Before the war, the government issued a massive amount of war bonds to finance its military operations causing the debt to be 200 percent of its GDP. In this case, the government had to issue the policy to alleviate this problem with BOJ printed massive quantities of banknotes making inflation intensified. In the 1930s, Japan lost control of sustaining their public debt. The starting point is that they needed goods during the war and needed fiscal expenditure that results in foreign and domestic debt. The main key issue that Japan has been struggling with sustaining its public debt for such a long time is that the military had the authority to create its own spending plan without consulting other Cabinet members or budgetary branches, and then negotiate with the MOF to finalize the annual budget. Plus, the international gold standard system was mistakenly blamed as one of the factors that Japan could not sustain their public debts. In fact, the international gold standard system is not the one that leads countries into the great depression. However, it is how the countries use the system in a wrong way.

After the defeat of Japan in World war II, the Japanese state was led by the occupation and rehabilitation by the United states of America (General Douglas A. MacArthur). Therefore, it caused a political, economic, and social dimension. In the political dimension, the change of government state was more effective to cope with economic recession post world war II. The policies were "Economic Democracy" in Japan. In economic terms, the effective fiscal policies of the government caused the economic recovery from recession and induced many investors to invest due to low interest rates. In the labor market, the cost of labor was cheaper. It will induce a high investment rate and decreased unemployment rate of Japan. In social dimension, the social dimension is a sustainable development which concerned primarily with poverty reduction, social investment, safe, and caring communities. The change in the constitution of Japan was the emperor shall be the symbol of state and of the unity of the people, deriving his position from the will of people with whom resides sovereign power.

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