CHAPTER THREE

THE UNITED STATES: ECONOMIC RELATIONS

1. The situation until the end of the 1960’s

After the war ended in 1945, it became evident that America remained as the single strong economic giant amongst the capitalist countries. Japan and Germany were not only defeated but also completely devastated. Great Britain, France and other major European countries were all severely damaged by the war. It was only on the American mainland that the war had not actually been fought. Thus under the new international economic order based on the Bretton Woods Agreements and GATT (Chapter 11), America became the leader of the free, market-oriented and capitalist world. This uncontested economic power of the United States lasted more or less throughout the 50’s and 60’s.

Until the end of the 60’s, Japan’s foreign policy agenda had consisted primarily of such political issues as the Peace Treaty, the Soviet Union, the United Nations, the Security Treaty with America, South Korea, and Okinawa. They were aimed at bringing Japan back as a normal member of the international community and implemented with considerable tension between the realists in the government and the passive pacifists in the opposition. Meanwhile, after the initial postwar turmoil had subsided, people in Japan had turned their attention to, and concentrated their energy on the development of the economy.

Shortly after the ‘special boom’ related to the Korean War was over, the first economic boom began. It lasted for about two and a half years, from 1954 to 1957. It was called the *jinmu* boom and was characterized by the investment to increase production capacity of such industries as shipbuilding together with the enhanced consumption of a trio consisting of ‘televisions (black and white), refrigerators and washing machines’. It had successfully replaced the postwar trio of ‘radios, sewing-machines, and bicycles’. This boom came to a temporary end when the government introduced a tight deflationary
financial policy to redress the balance of payment deficit which had resulted from this enhanced consumption.

The second economic boom was the *Iwato* boom which lasted for three and a half years, from 1958 to 1961. The leading industry which enlarged investment capacity was steel. Oil replaced coal as the fuel of industry. Prime Minister Hayato Ikeda, who succeeded Yoshida in 1960, presented an ambitious programme of ‘Doubling the national income’ in the decade 1961 to 1970 and based on this target, established an annual rise in the GNP of 7.2%.

The Olympic boom from 1962 to 1964 was followed by the *Izanagi* boom\(^1\) of almost five years from 1965 to 1970, probably the most powerful boom to lead of the entire postwar period. The large-scale investment of production capacity in such industries as steel, automotive, petrochemical and others exploded; in the internal consumption a new trilogy of ‘three Cs: car, colour television, and cooler (air conditioning)’ brightened up the middle-class dream of the Japanese people. Furthermore, the increased internal demand did not create a balance of payments deficit which in turn resulted in a rather substantial trade surplus. The period of ‘balance of payments ceiling’ was over and the period of ‘trade surplus’ began. The yearly real GNP growth from 1961 to 1970 averaged 10.9% and the ‘Doubling the national income’ programme of Prime Minister Ikeda exceeded\(^2\) its initial plan.

That time was called the ‘period of high growth’. The volume of Japan’s global trade was $1.8 billion in 1950,\(^3\) $8.5 billion in 1960 and reached $38.2 billion in 1970. America became her No. 1 partner in trade relations, occupying $11.5 billion in total in 1970, constituting more than 30% of its total trade. By that time Japan succeeded in creating a stable basis to engender a global trade surplus, which reached $2.5 billion in 1971.\(^4\)

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\(^1\) The names of these 3 economic booms, Jinmu, Iwato, and Izanagi are all taken from ancient Japanese mythology, each representing the strength of the nation. It may be a reflection of the psychology and expectation of the people of postwar Japan (A. Suzuta, *Konoissatsude Keizai ga Wakaru* (Understanding Economics in One Book), Mikasa Shobou, 2000, pp. 166–185).

\(^2\) Tadokoro, *op. cit.*, p. 115.
