**The Variety of domestic and occupational US policies in aiding post-war Japanese economic recovery**

USA role in Japan post-WWII recovery: Occupation and US-led reforms on Japanese recovery + USA main trade partner in Asia

Economic growth and development guided by US occupation and Japanese institutional change

comparison trade exports/imports in relation to rest of Asia

🡪 Graph: 1945 >>> onwards to show upward trend in conjunction with US policies + Korean War

On specific industries 🡪 COTTON/textiles, STEEL, COAL production, camera exports

SCAP policies: reform agriculture, reform zaibatsu oligopolies, revitalization of Japan economy

🡪 Korean War impact on Japanese economy

🡪 reversion of zaibatsu oligopoly break-ups

**Shift in US policy from deconcentration and removal of Japanese industrial/economical capacity to rebuilding and restructuring of the Japanese economy in the context of the effect on various Japanese industries. 🡪 HOW + WHY.**

🡪 HOW effect cotton, steel, coal, camera industries???

This paper seeks to first, provide a brief history of the post-war Japanese economic situation under the aegis of American occupation, then investigate how American/SCAP policies during this period had an effect on the following industries, … , … ,… ….

🡪 6 year period of US occupation lay the foundations for the Japanese economic recovery either through dismantling of old systems or preserving them. The domestic + international politics following the end of the occupation also played a role in the growth of Japan into an international economic power.

Post-war situation

🡪 DATA: American aid/investment into Japan

**Priority Production system (1947-1948)**

🡪 steel and coal industrial targets

🡪 growth from American raw material exports

**Dissolution and retention of zaibatsu industry – USA shifting policies.**

🡪 complete decentralization and zaibatsu-busting = prolong US tax-payer aid to support Japan

🡪 necessary retain zaibatsu industrial might for Japan self-sufficiency

🡪 reparation payments reduced

**Dodge line stabilization (1949)** (history of Japanese trade/industry 37-38)

🡪 remove Japan economic dependence on US aid

🡪 exporting and importing freed from American control

**Korean War (1950-1953)**

🡪 Gorika/rationalization = ^steel + coal industries

🡪 large influx of American dollars for usage investment in capital = ^production

**Camera industry**

🡪 American trade policies during Cold War = favorable environment for camera exports

🡪 Dodge exchange rate favorable to Japanese exports in general

**Cotton textile industry**

🡪 exports and production growth

**COUNTER:** SCAP NOT profound effect on Japanese recovery and USA trade

🡪 Korean War not full impact continuance post-war (pg. 45-46)

🡪 Camera industry NOT under *zaibatsu/keiretsu* support for export.

**HISTORY**

(Economic development of Japan, Ohno, 2005)

- foreign trade = ^^strict control + transaction necessity approval from SCAP, private trade = prohibited (p. 147)

- US provide ^humanitarian + economic aid ~1.95 billion (1946-1950) for food + consumer good shortages (147-148) 🡪 yearly US credits/grants to Japan shown in Figure 1.

- Japanese economy barely surviving from 2 artificial supports: subsidies + US aid.

- inflation from monetization of fiscal deficit (p. 150)

🡪 necessity prevent inflation AND sustain output

Pg. 154

- demilitarization of Japan = cripple economy for never military goods production = NO heavy industry allowed

- zaibatsu breakup: accusation of militarism during war = break up to smaller entities

- new labor laws: workers rights + labor unions + collective bargaining + basic work conditions

- land reform: confiscation of absentee landlords = ^land ownership of farmers, rise of small-scale family farming in lieu of productive agriculture

- new constitution: Emperor = symbol, sovereignty = citizens, guarantee basic human rights, Article 9 “no war” (155-156)

- 1947: strengthen Japan as capitalist ally + anti-communist base, economic aid = ^tax burden

🡪 promotion rebuilding heavy industry + remilitarization + economic recovery (p. 156)

- Washington = free markets + macroeconomic stabilization ^speed

🡪 “big-bang”: strong anti-inflationary policy through price stability

🡪 SCAP/MacArthur: gradualism policy (New Dealers) – lower inflation step-by-step through subsidies + USA aid and wean them off over time, fear big-bang = ^devastate industry + social crisis (p. 152)

- Treaty of San Francisco (1951): end of US economic assistance + political independence

🡪 Japan-US Security Treaty (1951)

**DODGE LINE (1949): (Ohno, 2005 p. 156-157)**

- Joseph Dodge arrival early 1949 (president of Detroit Bank), ^free economy proponent

🡪 austerity measures for stop inflation

🡪 call for “super-balanced budget”, strengthen taxation/cut expenditure, abolish subsidies, etc.

🡪 unify multiple exchange rates (different commodity each exchange rate) to 360 Yen = $1

(favorable for export trade in ^industries)

- adoption Dodge policies in 1950 🡪 foundation of Japanese tax in postwar period

- ^success in stopping inflation BUT severe economic shock = decline output

🡪 Korean War: sharp increase in external demand = export boom = recession quick end + growth of economy

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**(Economic History of Japan, Nakamura & Odaka, 2003)**

- 1948: Truman request for Dodge help following recommendation from Undersecretary Draper due to success of reconstruction plans in Germany as a result of deteriorating situation in China (Communism)

- introduce stringent control over domestic demand = reduce excess consumer purchasing power = expand exports

- restore market mechanisms through set single exchange rate + abolish subsidies, advancing rationalization policies

- expand production through combination of government savings and foreign aid funds for private enterprise investment

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The Dagger and the Gift: The Impact of the Korean War on Japan, Roger Dingman, 1993.

**- Japan necessary raise export volumes balance out US imports of necessities including food, fertilizer, petrol, medical supplies**

**- Asia continental trade partners NOT want to trade, in transition of sovereignty, instability economically + politically, legacy of war = Japanese products as unwelcome, Asian countries preference concentration development own economy. (pg. 9)**

**- Single official exchange rate by Joseph Dodge = 360 yen to the dollar (72-73)**

**🡪 Japan necessity imports = exports calculated at more favorable rate relative to imports so more foreign exchange was generated through Japan’s imports. Dodge’s official rate was seen as slightly undervaluing the yen and due to Japan’s reliance on US imports was favorable to the economic recovery.**

**US POLICY CHANGE: 1947-1953**

(US Policy in Post-War Japan: Retreat from Liberalism, Schonberger, 1982)

- American policy-makers = preoccupation with domestic recession, inflation, surpluses, shortages = saw Japanese key role in global capitalist trading structure as solution, independent of direct US aid. (pg. 40)

- Draper (Army Undersecretary): Japan as anti-communist military bastion = jeopardize Japanese trade in Asia, specifically among communist governed countries.

- Sept. 1947 visit = convinced revision reform program = reparations + zaibatsu dissolution necessary for “crank-up” of Japan to success (pg. 43)

- Draper + Kennan: necessity win support from 80th Congress to ^^^increase aid appropriations for start industrial raw material shipments + relief goods

🡪 modeled after Marshall Plan: argue that 2 years increased appropriations = rapid increase in Japanese exports and consequent foreign exchange for imports lead to no US aid necessary by 1953. (TABLE) Work to dilute/emasculate/denounce zaibatsu dissolution reform “FEC-230” (pg. 46-47)

🡪 show decline in US foreign grants/credits to 1953 trough, subsequent years no where near $ amount as pre-1953 year figures.

- MacArthur and SCAP refusal to cooperation. Zaibatsu = “socialism in private hands” and belief in necessity over alternative to Japanese left-wing demand for public ownership of industries.

🡪 threaten Congressional support for relief + crank-up funds and reassurances to Japanese + American businessmen and Conservatives

🡪 Draper + Kennan move to publish speeches/articles on dangers of zaibatsu dissolution and SCAP interference (pg. 47)

- MacArthur strong support for Japanese economic recovery but considered zaibatsu as militarists and lead by elderly incompetents akin to “most effete New York club men”, dissolution allow for better people to run Japanese economy

- Summer 1948: MacArthur acquiescence – dissolution program completed but only 19 of original 325 firms broken up, Japanese banks completely exempted. (pg. 48-49)

- US reparation policies (1949): termination of reparation removals + permit Japan “to develop its peaceful industries without limitation”. Peaceful industries = refer to previously described in documents as “Japanese industrial war potential”. (pg. 51)

- Communism fears (1948): Draper – apparent Communist victory in China = “Japan is the logical stopping place of Russian aggression… definitely in America’s national interest to rebuild the Japanese economy.” (pg. 52)

(William R. Castle + Post-War transformation of Japan, Alfred L. Castle, 1990)

- Castle stress prewar claim: Japan rehabilitation along capitalism as strong bulwark against Soviet expansion. Strong economy provide economic containment of Russia and negate necessity of expensive, long-term US military containment across Pacific. (pg. 130)

- Japan not easily change institutions and “aristocratic social organization”, economic idealism and liberalization sought by SCAP and MacArthur only destroy Japanese economy with no other alternatives in place. (pg. 131)

- Korean War (1950): Japanese industry bolstered by UN military procurement, American tech + foreign investment. Provide evidence for necessity rebuild Japan = accepted majority of Americans. MacArthur/SCAP policies inhibiting former industrial leaders through purging and dissolution programs >>> necessity stop + restore economic concentration of *zaibatsu*. (pg. 136)

(Struggle to rearm Japan, J. Miller, 2011) p. 87

- 1947: ^Cold War tensions, worry over Japan future defensive + economic capabilities = ^discomfort MacArthur reforms 🡪 George Kennan (State Department – Policy Planning Staff) encourage strengthen economy + defense pact for security US-Japan alliance

🡪 victory China Communist Party (1949) + Korean War

🡪 Korean War: financial benefits of US military presence, central mobilization for US troops + material = ^military procurement = PM Yoshida: “a gift from the gods”.

**ZAIBATSU POLITICS:**

(US Occupation of Japan 45-52, Kingston, 2010)

- MacArthur promote trust-busting of *zaibatsu,* large family-owned conglomerates with huge influence in variety of industries of Japanese economy. Strong hand in military industrialization and profit forthwith expansions/procurements. General trend of deconcentrating of power in Japanese society. Large concentration of power in the hands of a few seen as permit small cabal of conspirators to influence national policy for own ends. (pg. 12)

- little impact as few trustbusters available, most Japanese experience/skill defending big business. Support of conservative political elite, opposition as belief help communists by slowing economic recovery and prolonging worker suffering. Indirect occupation – SCAP cooperation with Japanese government necessary for carrying out reforms. Japanese government with large US corporations with ties to *zaibatsu* lobby in congress by emphasizing left-wing policies of SCAP and burden of prolonging US aid by dissembling *zaibatsu* companies.

🡪 *zaibatsu,* modified into *keiretsu:* bank-centered, industrial conglomerates, strongly linked to pre-war *zaibatsu* companies. (pg. 13)

**STEEL:**

- Initially adverse to rebuilding industrial capacity of formerly powerful Japan but the Cold War shifted SCAP policies to focus on the input of coal and steel to revitalize industries, through direct subsidies reduced raw material prices for these industries. (Bernard Elbaum, 252, 2007)

- 1946: SCAP allow for importation of small number of certain goods, negotiations lead to importation of heavy oil in return for a production target of 30 million tons of coal, the heavy oil being a vital input for steel production which in turn was necessary for coal mines. Necessary as coal = only domestically available energy source. (Ohno, Economic Dev. 153)

Gorika/rationalization: improving productivity through technology/machinery investment + production/management reorganization (Ohno, 164)

🡪 Korean War: US military procurement and profits used as investment

🡪 steel industry = contribute overall productivity gain and more competitive

(Japan Spinner’s Association and recovery of cotton industry, W. Miles Fletcher, 2006) (pg. 18)

- SCAP creation of Economic Stabilization Board (1946): centralized economic planning

🡪 shortage of coal + steel = top priority production through “policy of sloping production”

🡪 ^Coal = ^Steel manufacturing = allocation to coal production for ^Coal output

🡪 Coal + steel supply to other industries = economic expansion as valuable inputs

CREATE TABLE SHOWING BOTH TOTAL + USA EXPORTS!!!

**CAMERA: (Patricia Ann Nelson, 1998)**

- Japan necessary raise export volumes balance out US imports of necessities including food, fertilizer, petrol, medical supplies

- Asia continental trade partners NOT want to trade, in transition of sovereignty, instability economically + politically, legacy of war = Japanese products as unwelcome, Asian countries preference concentration development own economy. (pg. 9)

- Single official exchange rate by Joseph Dodge = 360 yen to the dollar (72-73)

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- Following the war, all companies were required to receive permits for resuming production of their goods and most photography firms were allowed by the early months of 1946. (75-76)

- Cameras required few imports as Japan already had the raw materials at hand and through the American military post exchanges, the sales allowed for a huge influx of dollars to be allocated by the government to import basic necessities and investment into priority industries (capital equipment and licensing fees). (76)

- Export promotion from 1949 as part of recovery policy = ^^expansion (96)

- US market open for Japanese exports due to Japan balance of payment problems, increasing share of US market from sales to US armed forces in Japan and other parts of East Asia.

🡪 (DATA for Japan camera US market share?)

- PX sales important for photography firms as products/brand names into US market through returning military personnel. (99)

- PX sales fall from end of Occupation (1952) and end of Korean War (1953), regular non-PX exports increase into US market. (99)

- Rapid success of Japanese camera/lenses = US camera lobby > unsuccessful due to policy to fix imbalance of US-Japan trade seen as MORE important

🡪 signal Americans encouraged Japanese camera imports into US market as Japan economic recovery took PRIORITY. (104)

🡪 foreign policy shift toward friendly relation with China in early 70s = ^criticism Japanese export practices (215)

- Both the Korean War and Vietnam War were positives to camera/lens sales due to demand from US soldiers in east Asia and by 1960 over 40% of total sales value came from the US market. (108)

-favorable terms of trade from 1949-1971 due to low export prices of Japanese goods due to Dodge Line exchange rate of 360 yen to $1. Pressure to revalue exchange rate through late 1960s avoided by Japanese government playing off US security fears in East Asia (China/Korea then Vietnam). (143)

- US foreign policy encouraged Japanese economic recovery through export to an open US economy to the extent that it overlooked the effect on domestic US producers as anticommunism efforts were prioritized. (215)

**🡪 COUNTER**

- unlike many Japanese industries camera/lens firms NOT rely on general trading companies for building overseas markets

- early 1950s start of photography firms direct export to US market = *keiretsu* still in infancy organization or non-existent due to SCAP/GHQ deconcentration program of *zaibatsu* (129)

**COTTON textiles**: (restructuring cotton spinning companies post-war Japan, Takeshi Abe 2005)

US government accumulate surplus raw cotton from New Deal during Great Depression = necessity find new market = revival of Japanese cotton industry as customer!

Shipment starting from June, 1946.

SCAP in late 1946 to early 1947 = permit former large spinning companies usage of spinning/weaving machines. (pg. 3)

Korean War: upper limit of spindles removed = ^development of textile industry

🡪 CIRCULAR relationship: America provision raw cotton + market for supporting recovery of Japanese economy through usage export dollars reinvestment into priority industries.

1955-1970: cotton fabric production kept at over 2.5 billion square meters (pg. 4)

🡪 2.9 billion square yards

🡪 increased production and exports throughout this period seen in GRAPH.

🡪 largest export item iron/steel (12.9%), cotton textile/cloth (11.5%) – volume of exported cotton at 1 billion square meters between 1956-1963. (restructuring, pg. 5)

EXPORTS: shrink post-1955 due to pressure from domestic American market + voluntary restraint and 1957 agreement quotas between Japan-USA (international circumstances, pg. 11)

🡪 shares feel from 72% (1957) to 20% (1960), for American domestic market irrelevant due to emergence and entry of other Asian countries into American market. (pg. 11)

(International circumstances – Postwar cotton textile industry, Sugihara, 1999)

- recovery rapid – 1951, largest exporter of cotton textiles

- development as principal export industry from 1946-1960 = important factors of revival + rapid growth of Japanese economy (p. 1)

- America: necessity export raw cotton = Japan cotton industry as perfect partnership.

🡪 Initial need to dispose huge stock of raw cotton, offer credit for purchase raw cotton

🡪 Japan competitive as labor-intensive industry while America as capital-intensive and supply primary products = international division of labor (pg. 5)

- American market: restrictions for Japanese textile imports from first half 1950s, voluntary government restraint in 1955 + agreed quota 1957, Japan share from 72% (1957) to 20% (1960), other Asian countries make inroads to American market.

- international agreement between Japan and USA: importation of American raw cotton and export to Indonesia as part of American aid efforts to Indonesia. S/E Asia provide raw materials to USA in turn. (pg. 11)

(Japan Spinner’s Association and recovery of cotton industry, W. Miles Fletcher, 2006)

- increased textile exports relieve American taxpayers burden of paying for massive Japanese imports of food to prevent starvation.

- raw cotton from Commodity Credit Corporation = revenue for government and help domestic American cotton farmers by raising price 🡪 similar program in occupied Germany. (pg. 11-12)

- loss of territory: loss 2.75 million spindles (China/Manchuria), 210,000 (Korea) (p. 18)

- 59.4% of dollar value of Japan exports (MOST) – necessity for food/raw material imports

- US senators from cotton states urge War Department that CCC program at least 70% of raw cotton from America. (pg. 21-22)

- SCAP relax control on textile exports: 1947 permit Trade Bureau in some cases to direct negotiations with foreign buyers.

🡪 1948: receive permission to produce goods under own trademarks

🡪 Companies allowed to receive 25% of export revenue above SCAP price floor (pg. 36-37)

**DATA**

Japan Total Exports/Imports (million dollars) 1950 🡪

Exports/Imports (1955-1960-1965-1966, etc.) USA-Japan

**Coal production (thousand short tons) Statistical Abstract of the United States (1952-1962)**

1950: 42,396

1951: 47,743

1952: 47,795

1953: 51,292

1954: 47,089

1955: 46,763

1956: 51,318

1957: 57,601

1958: 54,756

1959: 52,093

1960: 56,292

**Steel production (thousand short tons) Statistical Abstract of the United States (1952-1962)**

1950: 5,334

1951: 7,167

1952: 7,703

1953: 8,446

1954: 8,543

1955: 10,371

1956: 12,242

1957: 13,856

1958: 13,358

1959: 18,330

1960: 24,403

**Camera:** pg. 14, 74

Production: (units) + export (value in millions of yen)

1945: 13,082

1946: 24,145

1947: 51,772

1948: 53,016

1949: 83,243

1950: 117,481

1951: 213,840

1952: 357,918

1953: 663,484

1954: 883,600

1955: 1,064,902

1956: 1,306,600

1957: 1,545,245

1958: 1,459,302

1959: 2,011,785

1960: 2,031,849

United States imports: (thousands, thousands of US dollars) pg. 103

1950: 85,100 (37.7%) 🡪

1951: 111,000 (32.5%) 🡪

1952: 78,200 (16.2%) 🡪

1953: 137,300 (14.9%) 🡪

1954: 332,600 (45.3%) 🡪

1955: 868,300 (68.1%) 🡪

1956: 819,400 (71.9%) 🡪

1957: 1,098,700 (79.3%) 🡪

1958: 778,400 (68.7%) 🡪

1959: 997,400 (69.5%) 🡪

1960: 894,400 (57.3%) 🡪

1961: 660,300 (76.5%) 🡪

1962: 812,800 (58.0%)

1963: 875,100 (68.0%)

Pg. 103: percentage of total value of cameras exported to America. (highlight significance of American market as Japanese trade destination even after occupation + war ‘52+’53)

1950: 2.7%

1951: 5.3%

1952: 5.9%

1953: 5.4%

1954: 3.8%

1955: 11.8%

1956: 20.3%

1957: 35.4%

1958: 31.8%

1959: 32.1%

1960: 41.1%

1961: 41.2%

1962: 45.6%

1963: 53.9%

**Cotton textiles:**

Japan Exports of Cotton: (Million square yards)

1946: 1

1948: 408

1951: 1092

1954: 1278

1957: 1468

1960: 1424

Exports to US: (Million square yards)

1947: 7

1948: 9

1949: 3

1950: 22

1951: 2

1952: 6

1953: 33

1954: 49

1955: 140

1956: 123

1957: 82

1958: 97

1959: 97

1960: 87

**US foreign aid to Japan** (millions of Dollars) 🡪 Statistical Abstract of the United States (1954)

🡪 NET grants + credits

1945/1946: 388

1947: 487

1948: 423

1949: 550

1950: 247

1951: 279

1952: 64

1953: 5

1954: 42 (39 – 1958), 23 (1960)

1955: 16 (14 – 1958), 9 (1960)

1956: 78 (1958), 88 (1960)

1957: 83 (1958), 46 (1960)

1958: -4 (1960)

1959: 42 (1960)

1960: 17 (1960)

*Cold War politico-economical influences in US policy towards Japan*

*incentives: stability in East Asia, base for Cold War police actions against Vietnam, Korea, etc.*

*Japan: existing institutions + businesses used for economic > military purpose*

*US post-war occupation policies in Japan = contribution to increase total USA net exports (comparison to other Asian countries + total trade partners)*

*American post-war occupational policies help Japanese recovery = increase trade between Japan and America in lieu of other Asian countries*

*American policies during occupation = Japan as major trading partner in Asia (Korea underdeveloped, China = Communist look at exports/imports ratio?)*

*Korean War shift SCAP policies*

*--- Congressional policies and Occupational policies = Marshall Plan similarities?*

*Korean War = Japan demand g/s for reviving industries to support American war effort*

*Korean War + fight against Communism spur Japanese industry ^^^ from UN procurements & special US-Japan security treaty procurements*

*-- US-Japan security alliance tie America to economic recovery of Japan??*

*Exports to Japan shoot up during Korean War years from 1950-1953, steady increase from thereafter*

*imports from Japan tremendous growth during 1950s*

Some of the policies that will be discussed include, SCAP’s policies influenced the steel and coal industries via the negotiations for raw material imports and how the Dodge Line stabilization in 1949 was beneficial to the Japanese economy in that the exchange rate that was established (and remain until the 1970s) were favorable to Japanese exports in general. Also, the Korean War led to a huge influx of American dollars which could be reinvested into prioritized industries, allow the steel industry, as a prioritized industry, to use the profits from US military procurements to become more productive and competitive.

The dissolution of the *zaibatsu* industrial conglomerates would become an area of huge contention between various factions within both the US and Japanese authorities, the initial dissolution stemming from the need to punish the *zaibatsu*’s extensive role in Japanese imperial power propagation and a complete reverse course stemming from the fears of Communism in Asia spurring calls for retain the *zaibatsu* conglomerates as the foundation for Japanese economic self-sufficiency and to end prolonged US tax-payer aid to support Japan.

The camera industry was helped by American trade policies that were favorable for Japanese camera exports and years after the war the Japanese were able to prolong these policies by playing off the American’s fear of communism spreading in Asia and therefore Japanese economic power needed to be maintained.

The Japanese cotton textile industry was one of the early industries that recovered due to a unique happenstance that the US government had accumulated enormous amounts of surplus raw cotton from the New Deal during the Great Depression and saw the Japanese cotton industry as a customer. Shipments of raw cotton started from as early as 1946 and SCAP concurrently permitted former large spinning companies to use their machinery. Along with the shift in US policy to revive the Japanese economy rather than dismantling it represented by only one spinning company being broken up in 1949, SCAP lifted their control over textile exports starting from 1947, which led Japanese textile exports and production growing throughout the 1950s.

The policy shift from 1947 affected the Japanese steel industry in that SCAP began to focus on the necessity to revitalize industries through the important industrial inputs of coal and steel, at first through direct subsidies reducing the raw material prices for steel and coal production (Elbaum, 252).

*In the negotiations for Japanese import of certain goods in 1946, a deal was agreed that the US would import heavy oil in return for a production target of 30 million tons of coal (the only domestically available Japanese energy source). This helped the steel industry indirectly as heavy oil is a necessary input for steel production which in turn was necessary for coal mines. Steel was one of the primary industries targeted by the priority production plan and by 1947 had reached the 30 thousand ton production target, the industry was also helped along with shifting US policies to revitalize the Japanese economy in the face of Communism and SCAP began to subsidize raw materials. All these policies directed the growth in production of steel and the export thereof as it was vital to using the profits and American dollars to reinvest into other prioritized facets of the Japanese economy.*

- 1946: SCAP allow for importation of small number of certain goods, negotiations lead to importation of heavy oil in return for a production target of 30 million tons of coal, the heavy oil being a vital input for steel production which in turn was necessary for coal mines. Necessary as coal = only domestically available energy source. (Ohno, Economic Dev. 153)

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