Ideological Foundations of Japan's Economic Policy (1955–1973)

***Bui Dong Hung**

Institute of Asia-Pacific Studies, Vietnam Academy of Social Sciences

***Corresponding Author**

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ABSTRACT

During the period of "miraculous" economic growth, the Japanese Government directly or indirectly intervened in the economy through various channels. During this period, it is easy to see the influence of economists on the economic policy making of the Japanese Government. This article explores and analyzes some economic ideas that have had a great influence on the economic policy making of Japan during this period, such as Marxist economics, Keynesian economics and Schumpeterian economics.

Keywords: Economic thought, Economic school, Japanese economy, Keynesian Economics, Marxism, Schumpeterian Economics

INTRODUCTION

The period from 1955 to 1973 marked a phase of remarkable economic growth in Japan, often known as the "Japanese economic miracle". However, this growth was not solely driven by industry or exports — it was also shaped by underlying economic ideologies. Schools of thought such as Marxism, Keynesianism, and Schumpeterian theory played a role in influencing how the Japanese government crafted its policies. This article not only examines specific policy measures but also explores how these ideologies shaped Japan's thinking and developmental direction during this era of rapid growth.

MATERIALS AND METHODS

This study adopts a qualitative historical analysis relying exclusively on secondary sources. These include academic publications, government reports, economic white papers, and scholarly articles published during or analyzing the period 1955–1973. A thematic literature review approach was applied to identify recurring patterns and arguments about the role of economic ideologies in Japanese policymaking. Sources were selected based on their scholarly credibility, relevance to the topic, and frequency of citation in existing literature. Key themes were organized according to the influence of Marxist, Keynesian, and Schumpeterian economics. While the study is limited by its reliance on secondary data, it offers a comprehensive synthesis of the intellectual and ideological currents that informed Japan's postwar economic policies.

RESULTS AND DISCUSSION

Marxist Economics

The spread of socialist ideas among Japanese intellectuals increased after the end of the Sino-Japanese War (1894–1895), which brought about industrialization and urbanization in Japanese society. At the same time, the appeal of Marxism in academia grew as a result of the Russian Revolution. Bronfenbrenner argues that "Marxism entered Japan through the workers' movement in the 1900s, but was introduced into universities

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much later, after the success of the Russian Revolution."[1] The relatively liberal environment of the 1920s, compared to earlier periods, also contributed to the rise of Marxism in universities.

After World War II, Marxism was almost immediately reinvigorated. Left-wing scholars who had been forced out of their posts during the war gradually returned to universities. These scholars were consistently critical of Japanese militarism[2]. Moreover, as Japanese imperialism came to an end, many scholars who had previously abandoned Marxist ideas in favor of militarism during the 1930s returned to support the Marxist movement[3]. The relatively liberal policies of the occupying power - the United States - also helped Marxism penetrate Japanese society. The successes of the Soviet Union in World War II and the Chinese Revolution were additional factors that increased support for Marxism in Japan.

However, the Cold War shifted American attitudes toward Japanese socialism and communism. The Korean War further intensified this shift. Communist leaders were gradually purged from many industries, beginning with the press and broadcasting sectors, often on the "advice" of the occupation forces[4]. Universities were not exempt from this campaign. Nonetheless, even as Japanese communism was purged from many areas, Marxist research institutes retained prestige within economic circles. Evidence for this can be seen in economic texts from the late 1950s and early 1960s. Komatsu argues that "the percentage of Marxists, especially in Japan, was higher than elsewhere, with the exception of the Soviet Union and China"[5]. Similarly, Bronfenbrenner (1961) claimed that more than half of Japan's economists were Marxists.

Although Marxism made only limited direct contributions to the formation of Japan's economic policies, it does not mean that it lacked influence during the high-growth period. Between 1945 and 1960, the influence of Marxist thought was particularly evident. Notably, Arisawa Hiromi[6] made significant contributions to postwar policy development. In addition, many former members of the 1937 Planning Council—who had been arrested in 1941—later returned to serve in the Economic Stabilization Board and the Economic Planning Agency.

Keynesian Economics

The dissemination of Keynes's ideas in Japanese academia began very early. The first translation of "A Treatise on Money" appeared in 1932–1935. "The General Theory" was introduced to Japanese students only two months after its first publication[7]. However, in the period between the two world wars, the dissemination of Keynes's ideas to Japanese economists *slowed*. Instead, during this period, many prominent economists devoted their time to studying the economy governed by nationalism. In addition, the lack of communication channels with the rest of the world also *limited the further spread* of Keynesian economics.

After 1945, the dissemination of Keynesian ideas *increased significantly*. According to Hamada (1986), three factors can be *identified* to explain the growing interest in Keynesian economics among Japanese scholars. First, the Cultural Center built by the United States had a complete database of academic documents and economics textbooks for Japanese economic researchers to *access*. Second, most Japanese economists were not familiar with or had not been exposed to neoclassical economics, leading them to be passionate about studying Keynesian economics. Third, Japanese officials and economists may have been attracted by the "natural nature

[1] Bronfenbrenner M. (1961), "Some Lessons of Japan's Economic Development, 1853-1938", Pacific affairs, vol.34, No.1, p. 7-27.
[2] Ikeo, A. (1996), "Marxist Economics in Japan", Kokugakuin Keizaigaku (Kokugakuin University Economic Review), Vol. 44, No. ¾, 425-51, p. 123.
[3] Gao, B. (1997), Economic Ideology and Japanese Industrial Policy; Developmentalism from 1931 to 1965, Cambridge University Press, Cambridge.
[4] Ikeo, A. (1996), "Marxist Economics in Japan", Kokugakuin Keizaigaku (Kokugakuin University Economic Review), Vol. 44, No. ¾, 425-51, p. 437.
[5] Komatsu, Y. (1961), "The Study of Economic History in Japan", The Economic History Review, New Series, Vol. 14, No.1, p. 115-121.
[6] Arisawa Hiromi, a former professor of economics at the University of Tokyo, was one of the main architects of the Japanese development model. Combining Maxian planning concepts with German "total war" theory, he provided Japanese leaders with economic insights into different periods of Japanese managerial economy. Policies influenced by him were first implemented in the 1930s and early 1940s and again during the post-war recovery period. (Bai Gao "Arisawa Hiromi and His Theory for a Managed Economy" Journal of Japanese Studies Vol. 20, 115-153 http://www.siue.edu/EASTASIA/Yagi_110800.htm)
[7] Hamada, K. (1986), "The Impact of General Theory in Japan", Eastern Economic Journal, Volume XII, No. 4, p. 451-486.

of Keynesian economics" and thought that it was useful for solving Japan's everyday economic problems. Another important factor was the Fulbright scholarship and other programs that allowed Japanese students to study at universities in the United States, where they encountered scholars who followed the Keynesian school of economics and *modern economic models*[8]. Last but not least, Keynes's ideas were widely used around the world, which certainly contributed to the popularity of Keynesian economics in Japan.

Nanto and Takagi argue that the Ministry of Finance under Takahashi Korekiyo adopted Keynesian ideas to deal with the effects of the Great Depression[9]. But in fact, it was Ishibashi Tanzan who first put Keynesian fiscal and monetary policies into effect. Ishibashi Tanzan became Minister of Finance in 1946 and remained an important political figure in postwar Japan. He argued that monetary and credit easing policies should be implemented to facilitate economic recovery.

After 1950, many Japanese government economists became interested in Keynesian economic ideas. Saburō Okita and Osamu Shimamura were the most prominent, although they were also influenced by Schumpeterian and other approaches. Saburō Okita was a leading figure in the Economic Planning Agency. He was actively involved in government policymaking from the early years after World War II. He and his colleagues prepared the first postwar economic policy proposals. He was later responsible for drafting the details of the "income doubling plan" of 1960. Osamu Shimamura was also a prominent economist who was very active in the Japanese government after 1955.

One of the most striking features of Japan's high growth period was its success in allocating investment capital, especially fixed investment. There is a great disagreement in economic theory about the role of capital. Marx was one of the first economists to focus on capital. He emphasized the development of industrial machinery leading to the transition from manual to machine production and the importance of rapid capital accumulation. Later, under the influence of Keynes, capital became the most important determinant of long-term growth, which was essentially based on high savings rates. In the 1950s, Lewis[10] argued that, given an unlimited supply of labor, "the determinants of the expansion of production are capital and natural resources." However, later Solow (1956)[11] and his colleagues downplayed the importance of capital accumulation and emphasized the role of total factor productivity (TFP), based on external technological change. After the 1990s, some economists emphasized the role of capital in equipment investment. DeLong and Summers[12] are supporters of this view[13]. According to them, "High capital investment in machinery and equipment investment may account for almost all of Japan's extraordinary growth performance"[14].

During the period of high growth, the influence of Keynes on the use of capital in investment was quite evident. Japan was very successful in allocating its capital resources to investment, especially fixed capital investment. Japan's fixed capital investment tendedto increase gradually with GDP; this trend accelerated especially after 1950 and reached its peak in the period 1961–1973[15]. These funds were allocated in a focused manner under preferential financial policies for industries targeted for development. This policy was implemented through preferential loans, priority for the import of input materials, techniques and technology, investment in high-risk projects, and construction of industrial infrastructure. It is no exaggeration to say that Japan's high growth is largely the result of private companies' fixed investments in heavy industries (Japanese investment went mostly into high-tech and heavy industries rather than light industries, where Japan had a greater comparative advantage).

[8] Hadley, E. M. (1989), "The Diffusion of Keynesian Ideas in Japan", in Peter A. Hall. (eds) The Political Power of Economic Ideas: Keynesianism across Nations, Princeton University Press, Princeton, p. 299.
[9] Nanto, K. D. and Takagi, S. (1985), "Korekiyo Takahashi and Japan's Recovery from the Great Depression", The American Economic Review, Vol. 75, No. 2, 369-374.
[10] Lewis, W.A. (1954), "Economic Development with Unlimited Supplies of Labor", Manchester School of Economics and Social Studies, Vol. 22, No. 2, p. 139-191.
[11] Solow, Robert (1956), "A Contribution to the Theory of Economic Growth", Quarterly Journal of Economics, Vol. 70) , p. 4.
[12] De Long, Bradford J. and Summers H. L. (1991) "Equipment Investment and Economic Growth", The Quarterly Journal of Economics, Vol. 106, No.2, 489.
[13] De Long, Bradford J. and Summers H. L. (1991) "Equipment Investment and Economic Growth", The Quarterly Journal of Economics, Vol. 106, No.2, 445-502.
[14] Because, the marginal contribution of investment capital is very high without having to bear the pressure of increasing wages.
[15] Maddison A. (1991), Dynamic Forces in Capitalist Development, Oxford University Press, Oxford.

So where does Japan's high investment capital come from? We can divide these sources into two categories: domestic and foreign capital. In the case of Japan, unlike some other Southeast Asian countries, foreign capital did not account for a large part of financial investment. Investment capital came mainly from domestic sources. “If the savings rate had not increased rapidly after World War II, Japan's remarkable postwar economic growth would not have been achieved”[16]. The main component of domestic capital is household savings. Japan's savings rate increased rapidly in the 1950s and 1960s. From the 1960s to the late 1970s, the savings rate remained above 20%, which was relatively high compared to other industrialized countries.

There have been many attempts to explain Japan’s high savings “phenomenon.” According to Sato and many other scholars, “the savings rate is clearly a conditional macroeconomic variable rather than a cultural factor.” In other words, proponents of this view argue that Japan’s high savings stemmed largely from its high growth.

Other scholars have emphasized cultural factors as a driver of high savings in Japan. For example, according to Nathan, “Japanese people tend to save a lot in order to have a certain independence in spending matters”[17].

Although cultural factors may have contributed to Japan's high savings, institutional factors should also be taken into account. The postal savings system and bonus scheme have played a central role in achieving Japan's high savings rate. Postal savings funds were directed to industries such as iron and steel, shipping and mining, as well as to the construction of infrastructure, especially under the Financial Investment Loan Program in the 1950s.

However, Akyüz and Gore argue that in East Asia, high savings do not automatically generate high investment, there must be additional factors to prevent savings from being diverted to inefficient or speculative sectors[18]. In the case of Japan, Keynesian policies and institutional structures (such as banking, finance, direct credit policies) helped channel savings to productive sectors. Japanese companies used indirect financing methods to obtain the necessary funds for their investments instead of seeking them directly through the capital market. There are several reasons for this phenomenon. First, the Japanese capital market was still underdeveloped during this period. Therefore, seeking funds through the issuance of stocks or bonds was not a viable option for Japanese companies. Second, the lending interest rate policy from banks was very attractive, *the government actively injected money into the economy*. Monetary policy implemented by the Bank of Japan also “helped” encourage companies to borrow more from banks.

Schumpeter

Few Western economists have left a more profound mark on Japanese academia and policy than Joseph Schumpeter. His intellectual presence in Japan dates back to 1924, when he accepted an invitation to lecture at the University of Tokyo[19]. A few years later, in 1927, two Japanese economists—Tobata Seiichi and Nakayama Ichiro—who would later become influential in Japan, studied under Schumpeter at the University of Bonn. Nakayama, who had worked closely with the renowned economist Fukuda Tokuzo, continued his academic career in Bonn before returning to Japan to conduct research on unemployment with Fukuda[20].

In 1931, Schumpeter made a return visit to Japan, delivering a series of lectures and reconnecting with former students. His presence sparked widespread interest across academic circles and the media alike, reinforcing his growing prominence within Japan’s intellectual landscape[21]. His impact only deepened when his major works

[16] Sato, K. (1987), “Saving and Investment”, in Yamamura, K. and Yasuba, Y. (eds.) The Political Economy of Japan I, Stanford University Press, Stanford, p. 140.

[17] Nathan, G. (1976), “Social and Cultural Factors in Japanese Economic Growth”, in Patrick, H. and Rosovsky, H. (eds), Asia’s New Giant, The Brookings Institution, Washington, D.C, p. 848.

[18] Akyüz, Y. and Gore, C. (1996), “The Investment-Profit Nexus, in East Asian Development”, World Development, Vol. 24, No. 3, 461-470.

[19] Gao, B. (1997), Economic Ideology and Japanese Industrial Policy; Developmentalism from 1931 to 1965, Cambridge University Press, Cambridge, p. 206

[20] Nishizawa, T. (2001a), “Lujo Brentano, Alfred Marshall, and Tokuzo Fukuda; The Reception and Transformation of the German Historical School in Japan”, in Shionaya, Y. (eds) The German Historical School: The Historical and Ethical Approach to Economics, Routledge, London, p. 166.

[21] Suzuki, T. (1989), A History of Japanese Economic Thought, Routledge, London., p.92

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were translated into Japanese. Nakayama and Tobata played an important role in introducing his ideas through a series of translations: The Theory of Economic Development in 1937; Economic History in 1950; Capitalism, Socialism, and Democracy in 1951–52; Imperialism and Social Classes in 1953; and History of Economic Analysis in 1956–57. According to Gao (1997), it was the popularization of Schumpeter's theory of innovation—particularly in relation to Japan's 1956 white paper—that significantly shaped the country's approach to industrial policy during its high-growth period.

In his "theory of innovation," Schumpeter emphasized technology as an important factor for economic growth. He was one of the most prominent economists who recognized the importance of technology as an endogenous variable in capitalist development. He argued that: "The process of innovation constantly revolutionizes the economic structure from within, constantly eliminating the old and creating the new. The creative process is a necessary reality of capitalism." However, the factor of technology was **largely** neglected in economic theories for many years—until Solow (1956) proposed technology as an exogenous variable[22] within the framework of neoclassical economic theory.

During the high growth period, the latecomer advantage in modernization was never used in other countries as it was in Japan. Japanese industries tried to borrow the best available technology in the world and then improve it. Until 1970, Japan's technology strategy was still mainly based on absorbing foreign technology rather than domestic innovation. That is, Japan pursued a technology policy based on the adoption of advanced technology from abroad. The most common activities of technological upgrading and innovation were limited to licensing and agreements with foreign companies on patents and other rights. Japan also sent engineers and scholars to Western countries, especially the United States, to study. Foreign engineers and scholars were also invited to Japan to advise on the upgrading and innovation process. Foreign direct investment also contributed a small part to Japan's technological upgrading and innovation[23].

To benefit from the use of available technologies, the country must have the necessary conditions for the use of technology, such as high educational standards to provide a large number of skilled workers. Japan was able to fully utilize technology and had sufficient knowledge thanks to its industrial base during the war.

Thus, the diffusion of technology in Japanese production was due to government policies. And although technology policies were gradually liberalized, MITI still had full authority in selecting technologies permitted for import into Japan and in negotiating with foreign companies on the use and transfer of technology. To promote and control the development of technology, the Japanese government introduced laws such as the Foreign Exchange Law (1949) and the Foreign Investment Law (1950).

The Foreign Exchange Law was enacted in 1949 to increase foreign exchange reserves and balance of payments. On the other hand, the main objective of the Foreign Investment Law was to compete with imports and promote exports of Japan's key, highly competitive industries. These laws provided the basis for MITI's extensive control, and MITI used these powers for various purposes. For example, in many cases, competition among Japanese companies would increase royalties unless MITI intervened to reduce the number of competitors. In addition, MITI specifically tried to prevent technology agreements that included technology exports and other forms of restrictions.

Thus, Japan benefited from the opportunities of its relative backwardness, and Japan modified and innovated new technology. Moreover, the government also actively promoted and monitored the process of technology transfer.

Thus, for an economy with a backward starting point like Japan, technology is not necessarily a completely endogenous variable as Schumpeter expected. The availability of foreign technology indicates that technology may indeed be an external factor. However, the requirement to use or change, adapt, and upgrade the level of technology eventually makes technology an "endogenous" variable for a country like Japan.

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[22] Robert Solow proposed the exogenous growth model in 1956. According to him, the growth of an economy will converge to a certain rate in the steady state. Only external factors, namely technology and labor growth rate, can change the economic growth rate in the steady state.

[23] Odagiri, H. and Goto, A. (1996), Technology and Industrial Development in Japan, Calender Press, Oxford., p.39

CONCLUSION

The case of Japan shows that economists and economic thought are one of the most influential factors in economic policy making in the medium and long term.

Economic thought has had a profound influence on the formation of economic policies in Japan through various channels. Economists were very active, especially in the period 1945 - 1965 when most of the high growth policies were put into practice. Some of them were economists. Others were non-governmental economists. They played important roles in economic planning agencies and related offices. They participated in special groups, economic planning committees, investigation committees, Economic Stabilization Boards, Labor Committees, Productivity Councils, etc. Moreover, some of them were personal advisors to leading politicians. Personal connections with senior politicians and bureaucrats provide another channel for a small number of economists to play a larger role in Japan's economic policymaking. In addition, the publication of journals and articles written by prominent economists has also attracted public attention. Although there is no mass participation of economists in policymaking, economists have exerted great influence on policy making. Nakayama Ichiro, Arisawa Hiromi, Saburo Okita, Shimomura Osamu are such economists, they are the most famous economists during the high growth period. Their personal connections with senior politicians also provide them with opportunities to exert influence. Publications with their participation attract great attention, especially the economic white papers that are published.

The case of Japan shows that economists and economic thought are among the most influential factors in economic policymaking in the medium and long term.

Economic thought has had a profound influence on the formation of economic policies in Japan through various channels. Economists were very active, especially in the period from 1945 to 1965, when most of the high-growth policies were put into practice. Some of them were government-affiliated economists, others were non-governmental economists. They played important roles in economic planning agencies and related offices. They participated in special groups, economic planning committees, investigation committees, Economic Stabilization Boards, Labor Committees, Productivity Councils, etc. Moreover, some of them were personal advisors to leading politicians. Personal connections with senior politicians and bureaucrats provided another channel for a small number of economists to play a larger role in Japan's economic policymaking. In addition, the publication of journals and articles written by prominent economists also attracted public attention.

Although there was no mass participation of economists in policymaking, economists exerted great influence nonetheless. Nakayama Ichiro, Arisawa Hiromi, Saburo Okita, and Shimomura Osamu are such economists—among the most prominent during the high-growth period. Their personal connections with senior politicians also provided opportunities to exert influence. Publications involving their participation received significant attention, especially the economic white papers that were published.

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