

FYS 525, Topic 6: The Japanese Economic Miracle

Background: Japan's defeat in World War II inflicted a terrible toll on the Japanese economy. The beginning of the war isolated the nation and directed extreme amounts of resources to the military. The later stages of the war brought extreme loss of life and the destruction of much of Japan's physical capital. The Japanese economy rebounded after the war, however, far faster than most economists expected. By the 1980s, Japan was among the wealthiest countries in the world. It then invented the Nintendo, which led to the greatest sporting achievement in the history of the world: my knockout victory over Mike Tyson in "Punchout."

Core Concepts:

1. Convergence. Gross domestic product (GDP) is the market value of all goods and services that an economy. Although far from perfect, it is the most widely used metric to assess how wealthy an economy is. Poor countries (those with lower GDP, however, tend to grow faster than rich countries because there is more opportunity for them to "catch up."
2. Guns vs. Butter. This expression refers to the tradeoff between military and consumer goods. An economy that produces excessive amounts of the former may have high GDP, but its living standards may be lower than suggested by that level. Examples include the Soviet Union, and imperial Japan.
3. Savings vs Investment. Savings refers to households deferring consumption today for future consumption. They can do so using all sorts of instruments such as savings accounts, stocks, etc. Investment refers to firms buying physical capital. The two are closely related and higher investment helps explain cross-country income gaps.

Big Questions:

1. Prior to World War 2, Japan was one of the most unequal economies in the world. During the war, it sustained both a catastrophic decline in living standards and to inequality. Why?

2. Unlike other advanced economies, like the United States, Japan's reduction in inequality was quick, occurring almost exclusively during the war. After its defeat, Japan was occupied by the U.S. What were the economic implications of the occupation?

3. Post-war, Japan's economy achieved what has been called an "economic miracle," where its economy grew remarkably quickly and, by the 1980s, was among the wealthiest in the world. This was not expected. After the war, many economists expected Japan to remain poor for many decades. What caused Japan's rebound?