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# Dr. Osamu Shimomura's Legacy and the Postwar Japanese Economy



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# Dr. Osamu Shimomura's Legacy and the Postwar Japanese Economy



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*IN MEMORIAM*  
*Osamu Shimomura, 1910–1989*  
*A Leading Economist: His Theory, Insight,*  
*and Determination*



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# Chapter 1

## Introduction

**Abstract** In this book, we attempt to review the vision, theory, and policy of Dr. Osamu Shimomura (1910–1989). In addition, we try to analyze the historical development of the Japanese economy, examine the current economic problems, and give an outline of a new vision for the twenty first century. We look at the historical developments after World War II and discuss how to live in a “zero growth” economy. We conclude that a vision is essential for stability and sustainability of the market economy. We also learn precious lessons from studying the works of Dr. Shimomura.

**Keywords** High growth • National income doubling plan • Zero growth • Vision • Discipline

This book consists of two parts. In Part I, we will discuss the vision, theory, and policy of Dr. Shimomura related to the era of high growth and “zero growth.” In Part II, we will try to clarify the implications of a “zero growth” vision and analyze problems such as “lost decades,” sustainability, and corporate management.

(Part I)

Seventy years have passed since World War II ended in 1945. During this period, Japan’s economy experienced significant changes. The postwar history of the Japanese economy may be divided into three periods.

Chapter 2 summarizes the economic situation in Japan after the war. The first 10 years of the postwar period, from 1945 to 1954, is called the era of “reconstruction or rehabilitation,” during which the Japanese economy recovered from the ruin of war. During this period, the government policy prioritized controlling severe inflation and increasing industrial production. These two objectives were difficult to attain in the midst of economic disorder. At that time, the Japanese economy was compared to a boat sailing in a turbulent sea.

In Chap. 3, we discuss high growth. The second postwar period spanning 19 years, from 1955 to 1973, was an era of high (rapid) economic growth. The Japanese economy continued to grow 10% annually and it was on a balanced

growth path. In 1960, Dr. Shimomura presented the vision of high economic growth. The government implemented active growth-oriented policies and set the economy on a high growth rate. As these economic policies had the effect of achieving rapid growth, a new economic vision prevailed among the Japanese people. This growth period is well known as Japanese economic miracle. Today, the people of Japan long for this buoyant economic period and refer to it as “the good old Showa.”

Around 1970, the Japanese economy caught up with those of more advanced countries in Europe and entered a new phase of economic slowdown. This process is called “transformation from rapid growth to decelerating growth,” but the oil crisis in 1973 disrupted the transitional process.

Chapter 4 discusses the “zero growth” period. The third postwar period comprising 42 years, from 1974 to 2015, was an era of low growth or “zero growth.” After the oil crisis, the Japanese economy entered a new phase. Natural resources are not limitless. One of the key factors—an abundant supply of oil—which supported growth of the world economy was severely damaged. Japan lacked a clear economic vision. The economic progress was derailed and has been in serious disequilibrium. Since 1990, in particular, Japan has been continually witnessing a very low rate of economic growth. The term “lost decades” still prevails. People in politics and business are discussing how to get out of stagnant economy and propose several measures for economic growth.

The “zero growth” stage is a vision that was expressed by Dr. Shimomura when the first oil crisis broke out in 1973. A majority of economists and businesspersons criticized that a long-term forecast of “zero growth” was too pessimistic and insisted that Dr. Shimomura’s prediction was flawed. We will see in this book that he was right. Today, some economists have begun to predict a steady and sustainable economic future for Japan, which Dr. Shimomura implied in his vision of “zero growth” almost 40 years ago.

## (Part II)

In Part II, we will try to extend further what “zero growth” vision implies in the twenty first century. The three subjects that we choose are current zero growth, sustainability, and corporate management.

Chapter 5 considers the economic factors that have contributed toward stagnancy in the Japanese economy. Since the 1990s, the Japanese economy has been experiencing “zero growth” as per Dr. Shimomura. This phase is being referred to as the ‘lost decades’ by the Japanese people. In this context, we focus on the following three factors: surge in foreign direct investment (FDI), enlarged aggregate demand management policy of the government, and serious digression of managerial skills.

First, a surge in FDI causes industrial hollowing, which may threaten employment and macroeconomic stability. Second, public debt has been accumulating rapidly since the beginning of the century. The current expansionary fiscal and monetary policies are unsustainable. In addition, the growth-oriented industrial policy based on neo-liberalism resulted in poor records. For example, the