

ECONOMIC PLANNING IN POSTWAR JAPAN

ISAMU MIYAZAKI

I. ECONOMIC PLANNING IN A MIXED ECONOMY

SINCE THE END of World War II, nearly a dozen economic plans have been formulated in Japan. The plans which were prepared by the Economic Council¹ in the early postwar periods were not officially adopted as government plans. From the "Self-support Plan" (1955), the government has established long-term economic plans as the guiding principle for economic policies.

The plan in Japan is indicative and not imperative as in countries with a planned economy. An economic plan plays the following roles in the Japanese economy, which functions primarily in terms of the market mechanism.

The economic plan of Japan is divided into two parts, the private sector and the public sector. It indicates for the private sector a desirable and feasible target from the standpoint of the national economy and establishes indirect and general policies for private businesses to follow. In the rehabilitation period after the end of World War II, the government directly conducted production activities and controlled the distribution of commodities. In other words, the government intervened directly in the private sector, guiding private industries and restricting their activities. But, as the economy was restored, private business activities gradually became more active and economic growth came to depend greatly on such activities. In this situation, it has been generally recognized that direct government intervention in the private sector should be avoided as much as possible, except for declining industries and some infant industries.

In the meantime, the share of government activities in the national economy has increased year after year. This is ascribed to the fact that the role of the government, in the growth and stability, in the expansion of employment, in the promotion of social welfare, and in the elevation of education, has become more important. A major objective of an economic plan is therefore to clarify the measures which the government will take in achieving the target of its policy, such as an increase in social overhead capital, an expansion in educational training, promotion of social security, and appropriate demand management.

Since the plan does not strictly regulate or control private activities, targets of personal consumption expenditure, private equipment investment, and production levels in the private sector are simply forecasts. It is true that the government

¹ An advisory body to the Prime Minister whose members are made up of representatives from business, labor unions, and scholars.

stimulates or restricts private activities to some extent through general measures, but a failure in the achievement of the targets does not give any excuse to the government to take strong measures to control private activities.

On the other hand, with respect to the public sector, the government has a responsibility and is in a position to take any measures it deems necessary. The policies in the public sector are formulated on the basis of the expected activities of the private sector, while the forecast of the private sector must be made on the basis of government policies. Accordingly, it is often asserted that government planners should clarify the relationship between the policies and the targets or forecasts, and draw up plans for the public sector as minutely as possible to assure effectiveness of the policies. However, the more minutely the plans are drawn up for the public sector, the more difficulty the government will face in the adoption of policies suitable to the actual conditions. In view of this, the government has shown in recent plans, for instance, sector-by-sector distribution of the amount of public investment. At the same time, more emphasis has been placed on the necessity of carrying out yearly investment with flexibility. As a result, the extent of rigidity or flexibility in carrying out the policies envisaged in the plans has become obscure.

Since an economic forecast is used as the basis of the policies to be taken and also as a guiding principle for private activities, it should be made as accurate as possible. The forecasts in past economic plans, however, were generally not realized. The rates of economic growth were underestimated; actual performance of private equipment investment, mining and manufacturing production, and exports was in many cases far greater than that of the forecasts in the plans. This was due to a variety of reasons. The projection method of the plans was partly responsible. However, the major reason was that the growth potentiality of the Japanese economy was underestimated. In the plans formulated in the late fifties, it was widely believed that the high rate of growth had been due to postwar rehabilitation and that the growth rate would gradually fall.

However, in view of the emergence of various imbalances in the economy—the lag in modernization of agriculture and small business, price rises, and an inadequate advance in people's living—it has recently come to be believed desirable to moderate somewhat the growth of the economy.

In Japan, where economic growth is very high and structural changes are great, private enterprises will have to prepare in advance for possible changes. Under these circumstances, an economic plan is important, because it shows what measures the government will adopt and what actions the private sector should take.

II. HISTORY OF ECONOMIC PLANS

In recent years, the government has decided on a long-term economic plan as the guiding principle for better economic management. Table I shows major economic plans which have recently been formulated. Table II shows a comparison of some indicators concerning the projections and the actual performance.

TABLE I
SELECTED FEATURES OF ECONOMIC PLANS

Name of Plans	Five-year Plan for Economic Self-Support	New Long-Range Economic Plan	Doubling National Income Plan	Medium-Term Economic Plan	Economic and Social Development Plan	New Economic and Social Development Plan
Date published	December 1955	December 1957	December 1960	January 1965	March 1967	May 1970
Cabinet at the time of plan approved	Hatoyama	Kishi	Ikeda	Satō	Satō	Satō
Planning period (Fiscal years)	1956-60	1958-62	1961-70	1964-68	1967-71	1970-75
Economic growth rate to the plan	F. 1952-55 8.6%	F. 1953-57 7.3%	F. 1956-60 9.1%	F. 1960-64 11.3%	F. 1962-66 9.1%	F. 1965-69 11.3%
Projection in the plan	F. 1956-60 5.0%	F. 1958-62 6.5%	F. 1961-70 7.2%	F. 1964-68 8.1%	F. 1967-71 8.2%	F. 1970-75 10.6%
Actual performance during the plan period	F. 1956-60 9.1%	F. 1958-62 10.1%	F. 1961-70 11.1% (est.)	F. 1964-68 10.8%	F. 1967-70 12.8% (est.)	—
Method for projection	Colm method (Labor X productivity)	Desirable balance chosen from 3 cases with different growth rates	Growth rate previously decided (Successive approximation method)	Econometric model	do.	do.
Aims	Self-support of the economy, Full employment	Maximization of growth, Improvement of national living, Full employment	do.	Rectifying imbalances	Balanced, steady economic development	Construction of a human society through balanced economic growth
Major policy objectives	Modernization of production facilities, Promotion of international trade, Reduction of dependence on imports, Discouraging consumption	Improvement of infrastructure, Heavy-industrialization, Promotion of exports, Encouraging savings	Improvement of social overhead capital, Improvement of industrial structure, Rectifying the dual structure of the economy and improvement of social stability	Modernization of low productivity sectors, Efficient use of labor force, Qualitative improvement of national living	Stabilization of prices, Improvement of economic efficiency, Promotion of social development	Improving economic efficiency from an international viewpoint, Securing price stability, Promotion of social development, Maintaining adequate economic growth and cultivating development foundations

TABLE
COMPARISON OF

Items	Five-year Plan for Economic Self-Support			New Long-Range Economic Plan			
	Fiscal	A 1955	B 1960	C 1960	A 1957	B 1962	C 1962
GNP in real terms (1965 price) (Thousand billion yen)		13.2	16.8	20.3	15.2	20.8	24.6
GNP in nominal terms (Thousand billion yen)		8.9	—	16.2	11.2	—	21.7
(Billion dollars)		(25)		(45)	(31)		(60)
Percentage composition (%)		100	100	100	100	100	100
Private consumption expenditure		64	62	56	60	60	56
Gross domestic fixed capital formation		20	—	32	27	23	34
Government fixed investment		6	—	8	7	5*	10
Private investment in plants, equipment		11	23	20	17	16†	20
Private residential construction		3	2††	4	3	2††	4
Per capita income (Dollars)		224	—	387	279	—	503
Exports (Billion dollars)		2.1	2.7	3.9	3.0	4.4	4.9
Imports (Billion dollars)		2.0	2.6	3.9	3.2	4.2	4.6

Notes: A: Base year used for plan formulation.
 B: Planned targets for the final year of the plan.
 C: Actual result.

In December 1955, the "Five-year Plan for Economic Self-support" (Fiscal 1956-60) was formulated, as the first economic plan which the government decided officially after the end of World War II. Since the end of World War II, Japan's balance of payments depended on aid from United States military procurements. The plan considered that the most important task of the Japanese economy was to achieve an equilibrium in the balance of payments through normal trade. At the same time, the target of the plan was set at the expansion of economic activities to the greatest extent in order to increase employment opportunity, since a sharp rise in the working population was expected. The annual growth rate of the gross national product was set at 5 per cent, and the emphasis was laid on the manufacturing industries, particularly on export industries and heavy and chemical industries. Reviewing the developments of the economy thereafter, it is noted that the economic growth rate turned out to be twice as large as what had been projected in the plan, and the growth in mining and manufacturing production and exports proved far greater than that envisaged in the plan. Thus the targets in the plan were achieved in almost two years.

The "New Long-Range Economic Plan" (Fiscal 1958-62), which was recommended by the Economic Council, was adopted by the government as the national plan. The target was that the nation would "achieve a continuously high economic growth while sustaining economic stability, promote a steady rise in the people's living standards and thereby approach the realization of full

II
PLANS AND PERFORMANCE

Doubling National Income Plan			Medium-Term Economic Plan			Economic and Social Development Plan			New Economic and Social Development Plan	
A 1960	B 1970	C(est.) 1970	A 1964	B 1968	C 1968	A 1966	B 1971	C(est.) 1970	A(est.) 1969	B 1975
20.3	40.7	58.2	30.6	45.2	46.3	36.0	53.4	58.2	52.4	96.0
16.2	—	72.4	29.5	48.9	52.8	38.1	65.1	72.4	62.6	142.0
(45)		(201)	(82)	(136)	(147)	(106)	(181)	(201)	(174)	(398)
100	100	100	100	100	100	100	100	100	100	100
56	58	51	56	51	52	55	55	51	51	50
32	29	36	33	37	34	32	33	36	35	39
8	11	9	9	12	9	9	12	9	8	10
20	14	20	19	20	19	17	15	20	20	19
4	4††	7	5	6††	6	6	7	7	7	11
387	—	1,540	646	—	959	820	1,300	1,540	1,350	2,760
4.1	9.3	19.2	7.2	9.9	13.5	9.8	16.4	18.8	16.4	37.4
4.7	9.9	18.6	6.3	8.9	10.4	7.7	13.5	14.8	12.6	29.6

* excludes investment by government enterprises.

† investment by government enterprises included.

†† excluding investment by private enterprises.

employment." The economic growth rate was set at an annual rate of 6.5 per cent, which was lower than the 7.3 per cent average annual rate in fiscal 1953-57 (about 9 per cent in fiscal 1952-56). Since the Japanese economy was in the process of rehabilitation, the government thought that even sustaining a growth of 6.5 per cent would require a substantial amount of endeavor on its part. However, in actual performance, the rate again exceeded the projection, reaching about 10 per cent on the average during the plan period. Responsible for this unexpected growth were the facts that exports rose at a slightly higher rate than what had been projected, that the volume of imports increased much more than expected because of a fall in import prices, that gross domestic capital formation expanded greatly owing to a rise in private equipment investment (and as a result the percentage of gross capital formation in the gross national product was more than 35 per cent both in fiscal 1959 and fiscal 1960 against the forecast of 28.5 per cent for fiscal 1962), and that the growth in the production of the manufacturing industries was greater than the projection.

The "Doubling National Income Plan" (Fiscal 1961-1970) was advocated by the then Prime Minister Hayato Ikeda at the beginning of 1959. Based upon his proposal, the Economic Council drew up a plan and the government decided to adopt it in December 1960. This plan made it desirable and possible to double the national income within ten years, or raise the annual growth rate of the economy to 7-8 per cent, thus raising the people's living standards and accom-

plishing full employment. For this purpose, the plan set forth five major policy objectives: the improvement of social overhead capital, the introduction of a highly industrialized structure, the promotion of international trade and economic cooperation, the development of human ability and advancement of science and technology, and the easing of the dual structure and the maintenance of social stability. With respect to social overhead capital, the development of such facilities as roads and harbors was very slow compared with that of private capital, thus forestalling economic progress. At the same time, the both quantitatively and qualitatively low level of housing and environment facilities prevented the people's living standards from going up. One of the targets of the plan was to bring the ratio of public investment to private equipment investment from the former 1 : 3 to 1 : 2 by fiscal 1970.

The "Doubling National Income Plan" had characteristics of its own that had not been clearly witnessed in the previous plans. In this plan, the economy was divided into two sectors: the public sector and the private sector. As for the former, the government formulated the details of the program while, as to the latter, it made forecasts without a detailed program of individual industrial activities, leaving basically the realization of the target to the discretion of private business. In the previous plans, emphasis had been laid on the physical aspect of the economy, while in this plan emphasis was put on social aspects as well.

This plan was also the first one in which the problems of differentials were discussed. Various differentials were distinguishable: income differentials among social strata and among regions. The problem of regional differentials, as pointed out in this plan, came to be realized as a major regional issue together with the over-congestion problem. This understanding was also shown in the "Comprehensive National Development Plan" which was formulated later.

The "Doubling National Income Plan" envisaged that the real economic growth rate would work out to 7-8 per cent annually (7.2 per cent if fractional figures are taken into account). In the actual performance, however, the rate reached 11 per cent on the average from fiscal 1961-63. Particularly notable was the performance of private equipment investment, which grew by almost 40 per cent in fiscal 1960, followed by an additional 29 per cent increase in fiscal 1961. This meant that the level which was expected to be reached in the final year of the plan was achieved in the first year. On the other hand, various imbalances attendant upon a high rate growth, such as the rise in consumer prices and delay in the modernization of the low productivity sectors, came to the fore.

In view of this situation, the Economic Council examined the development of this plan in 1963 and pointed out the following in its report. The Japanese economy had become an open-door economy and the labor situation changed radically from a surplus to a shortage of labor. Thus, the conditions surrounding the Japanese economy changed very much beyond what was estimated at the time of drafting the plan. In view of these changes, the Economic Council decided that the drafting of a new economic plan for four or five years would be necessary.

Accordingly, the government requested the Economic Council to formulate a

new plan. The Council prepared a draft and the government adopted it as the "Medium-term Economic Plan" (Fiscal 1964-68) in January 1965.

The plan was aimed at the following three points. First, the Japanese economy should adapt itself to new conditions such as the labor shortage and the shift to an open-door economy. Secondly, the sharp rise in consumer prices, the expansion in income differentials, and various other side effects attendant upon a high rate growth should be rectified. Thirdly, in order to improve the social aspects of the people's living, emphasis was placed on the promotion of social development. In order to achieve these objectives, the following five policies were adopted: (a) expansion of international trade and modernization of the industrial structure, (b) development of human ability and encouragement of science and technology, (c) modernization of low productivity sectors, such as agriculture, small business, and the distribution sector, (d) enhancement of mobility and effective utilization of the labor force, and (e) qualitative elevation of people's living through improvement of housing and environment facilities and an expansion in social security.

The growth rate was set at 8.1 per cent on the average during the plan period. Compared with 11.3 per cent, which was the average growth rate for the preceding five years, this forecast was very modest. The adoption of this low growth rate was due to the two possible constraints, namely, the current balance of payments and the rise of consumer prices.

The characteristics of this plan were as follows. First, attempts were made to change the pattern of the allocation of resources, putting more emphasis on investment in low productivity sectors. It also emphasized the importance of increasing investment in social overhead capital, which expanded far less than private production equipment. Previously, a major portion of the available resources had been channelled into the modern industrial sector, particularly big business. The low productivity sector had been left behind the high productivity sector, with the resulting soaring of consumer prices. The relative delay in the development of social overhead capital had failed to bring about improvement of the people's living, and new problems such as environmental disruption appeared. In view of this situation, the plan suggested that efforts should be made to correct these imbalances even at the expense of economic growth.

Secondly, consideration was given to the announcement effect of the plan. When the "Doubling National Income Plan" was announced, individual private businesses were quite eager to start equipment investment in order to increase their own shares in their respective industrial markets. Consequently, an unusual upswing in equipment investment occurred in 1960-61, and the balance of payments situation deteriorated beyond expectation. In the light of this experience, the "Medium-term Economic Plan" did not include industry-by-industry production figures.

Thirdly, an econometric method was used fully for the first time in Japan for the preparation of an economic plan. For the drafting of this plan, five econometric models were developed. Out of these five models, a medium-term macro-model and an inter-industry model were used primarily for setting the target

figures. The medium-term macro-model consisted of forty-three equations. The inter-industry model was used to apportion macroscopic coefficients among sixty industrial sectors, to carry out the sector-by-sector examination, and to check on macro-figures. The adoption of the econometric method has raised the consistency of target figures and also made it possible to examine numerically the effects of policy measures.

The "Medium-term Economic Plan" which had been thus laboriously established was abolished a year later, in January 1966. The cancellation of this plan was due to the fact that the rise of consumer prices worked out at 5-6 per cent annually, greatly exceeding the approximately 2.5 per cent envisaged in the plan. Also responsible was the fact that the national bond policy which had been regarded as undesirable in the plan for the overcoming of a recession was adopted in fiscal 1965. The principal reason, however, was the change in the government. Prime Minister Eisaku Satō, who headed the new Cabinet, was urged to formulate a new plan envisaging his own political views and to present it to the people.

During the decade from 1955 to 1964, Japan's economy recorded a very high rate of growth. Japan's international position rose notably by the adoption of Article 8 status under the IMF Agreements, by the transference of Japan to an Article 11 nation under GATT, and by participation in the OECD. Despite this remarkable growth, improvement in the people's living environment was left lagging far behind. Due to urbanization the phenomena of over-congestion in big cities and underpopulation in remote rural areas and ever-mounting pollution became serious problems. The government has found it more important to assure a balanced development of the economy by replenishing the social aspects than to promote only quantitative expansion. Recently, social development has been given important emphasis in economic plans, which have been called "Economic and Social Development Plan."

In May 1966 when the "Medium-term Economic Plan" was abolished, Prime Minister Satō requested the Economic Council to prepare a draft, asking for "a long-term economic plan to achieve a balanced and steady prosperity both in the economy and society." After deliberating for about nine months, the Council submitted its recommendations to the government in February 1967. The government adopted the recommendations in March 1967, and set up the "Economic and Social Development Plan" (Fiscal 1967-71).

This plan has the subtitle, "A Challenge to the Coming Decade," which means our determination that amid great environmental changes in the decade such as a shift to a full-fledged open economy, intensification of the labor shortage, and the further progress of urbanization, we shall have to modernize our economic society by the achievement of growth without inflation, the improvement of economic efficiency, and the formation of new regional communities. For these purposes, the plan envisaged three major policy objectives which should be enforced: price stabilization, economic efficiency, and social development.

With respect to price stability, the government made it its target to hold down the rate of increase of consumer prices, which had been 6 per cent on the average after 1960, to about 3 per cent by fiscal 1971. In order to achieve this target,

the plan included the eight-point price stabilization measures. It was stated in the plan that the economic growth rate should be brought down below 10 per cent in order to make these measures effective.

The promotion of economic efficiency means a reduction in costs in the Japanese economy as a whole through better allocation of resources. The remarkable development of Japanese industries has been due to a rapid expansion in the manufacturing industries, particularly the heavy and chemical industries. Among large businesses, there was fierce competition to acquire a larger share of the market, and as a result the total capacity has tended to become excessive. On the other hand, investment in the agriculture, small business, and distribution sectors has relatively lagged, and as a result the economy as a whole has increasingly become less effective. With the advent of the age of internationalization, it is necessary to solidify the industrial structure, particularly in the field of large enterprises, in order to meet international competition. It was therefore stated in the plan that "an effective competitive structure by enterprises of the same scale as world enterprises" should be built. With respect to the low productivity sectors, the plan made it necessary to promote modernization by channelling more investment to these sectors. The plan further advocated that the labor force and land should be utilized effectively from the same standpoint.

According to the plan, social development should aim at the realization of economic growth and the harmonious rise in the people's welfare. The economic growth has contributed to the elevation of people's living standards through the rise in the personal consumption. In the course of the growth, however, the development of urbanization and the expansion in the production scale have brought about a housing shortage, traffic congestion, inadequacy in living environments, and worsening of pollution problems. In view of this situation, the plan indicated the directions of development individually for large cities, local cities, and rural areas, and then suggested that on the basis of these directions, houses and living environment facilities should be improved, pollution should be eliminated, sound education for young people and children should be conducted, and the repletion of social security should be promoted.

The plan set the growth rate at about 8 per cent per annum (8.2 per cent, if fractional figures are taken into consideration). The establishment of this comparatively low growth rate was due to the expectation that the labor market, particularly that for young labor, would become smaller. Also responsible was the belief that a moderate growth should be achieved instead of the hitherto high growth in order to stabilize prices and to sustain the undertone of an external surplus.

The characteristics of this "Economic and Social Development Plan" may be summarized as follows:

First, the plan emphasized the changes in the conditions surrounding Japan. In the previous plans, how to increase the growth capacity of the Japanese economy and how to minimize the side effects attendant upon a high rate of growth had been the targets. However, in this plan a strong forward-looking attitude was taken to cope with changes in conditions such as internationalization and the

labor shortage. Secondly, the social aspect of the development was emphasized and the word "social" was introduced into the title of the plan. Thirdly, a stable growth policy was adopted. It is true that the economic growth rate envisioned in the plan was not much different from, or even higher than, that in the "Doubling National Income Plan" or the "Medium-term Economic Plan." However, contrary to the previous plans, which had advocated policies to increase the growth capacity of the Japanese economy by eliminating factors obstructing the growth, the plan under review, while acknowledging the high growth of the economy, made it desirable to lower the growth rate below the actual performance during the past few years, in due consideration of the labor shortage, the necessity to stabilize prices, and the maintenance of an equilibrium in the balance of payments. Fourthly, price stabilization was taken up as one of the most urgent policy objectives. The "Doubling National Income Plan" forecasted the change in relative prices, but did not forecast the rise in the price level as a whole. The "Medium-term Economic Plan" regarded prices as a factor restricting growth. On the contrary, this plan set a target on the understanding that a trade-off relationship existed between price stability and other policy objectives, particularly the growth target. The adoption of an econometric model method made it possible to assess this relationship. In this plan, the effect of the structural policy was to some extent calculated with the use of a sub-model, and consideration was given to the shift of the so-called trade-off curve. Thus, the target of price stability was fixed.

Reviewing the actual performance of the economy after the formulation of the plan, it is noted that there have been fairly large differences between the projection and the actual results. First, primarily owing to a sharp rise in private equipment investment, the growth rate greatly exceeded the forecasts. It is estimated that the real growth rate would reach nearly 13 per cent on the average for fiscal 1967-70 against 8.2 per cent in the plan. The rate of increase of private equipment investment (nominal) was twice as large as the 10.6 per cent of the forecast. Since the economic growth rate and private equipment investment have gone far beyond the projection, the plan cannot any more fulfil the role of a guide to private economic activities.

Secondly, the relative increase in social overhead capital has been delayed. The plan set the growth of public investment (real) at about 10.7 per cent, or slightly higher than the economic growth rate and advocated a rise in the ratio of public investment to private equipment investment from less than 50 per cent in the past decade to about 60 per cent in the plan period. However, from fiscal 1967 to 1969, the growth in public investment was almost the same as that projected in the plan, while the ratio to private equipment investment stood at 44 per cent in fiscal 1968, showing a drop from fiscal 1966. The ratio is estimated to drop further in fiscal 1969. The relative delay in the development of social overhead capital has thus become notable.

Thirdly, there is a price problem. Consumer prices which rose by 4.2 per cent in fiscal 1967, increased again by 4.9 per cent in fiscal 1968, indicating a sharper upswing. In fiscal 1969, a 6.7 per cent rise was recorded. In view of

this situation, it would be very difficult to achieve the target of the plan, which is to lower the rate of increase to about 3 per cent by fiscal 1971. Moreover, contrary to the forecast of an almost moderate movement, wholesale prices have recently shown signs of a sharp upswing. It is therefore urged to enforce a strong price stabilization policy.

Not only the actual development has proved quite different from the forecast, but also new problems have emerged along with the changes of conditions such as the progress in internationalization and the high complexity of the economic society. Consequently, the Economic Council decided to revise the "Economic and Social Development Plan" in January 1969. However, in view of the rapid changes occurring in the situation of the economic society, the Prime Minister requested the Council in September 1969 to formulate a new economic and social development plan. After continuous deliberations, the Economic Council submitted its recommendations in the form of the "New Economic and Social Development Plan" (Fiscal 1970-75) on April 9, 1970.

III. NEW ECONOMIC AND SOCIAL DEVELOPMENT PLAN

The "New Economic and Social Development Plan" (Fiscal 1970-75), was formulated along the basic lines of the former "Economic and Social Development Plan." It aims at the realization of a balanced economic growth and a better living for the people in coping with the new environment in the forthcoming 1970s. Since the enforcement of the previous plan, the economy, as stated above, has grown more than earlier expectations and the nation's external payments position has strengthened at a quicker pace. On the other hand, however, various types of imbalances have emerged where efforts to deal with the unfavorable aspects of rapid economic growth were delayed. In the meantime, economic activities have taken on a wider perspective throughout the world. This global trend, coupled with the expansion in the scale of the Japanese economy, has

TABLE III
MAIN ECONOMIC INDICATORS IN THE NEW ECONOMIC AND
SOCIAL DEVELOPMENT PLAN
(Annual average rate of increase, in per cent)

Items	Fiscal 1968/1953 (past 15 yrs)	Fiscal 1968/1962 (past 6 yrs)	Fiscal 1975/1969
Gross national product			
In real terms	9.7	11.1	10.6
In nominal terms	13.9	16.0	14.7
Consumer prices	3.7	5.2	4.4
Wholesale prices	0.5	1.4	1.0
Labor force	1.6	1.6	1.1
Exports (IMF basis)	16.7	18.1	14.7
Imports (IMF basis)	10.9	14.9	15.3
Mining and manufacturing production	13.6	14.0	12.4

necessitated the operation of our economy from an international standpoint. It was with this view that the new economic plan was made.

This plan consists of three parts: Part 1: Policy Objectives of the Plan, Part 2: Important Policy Measures, and Part 3: Prospects of Economic and Social Development. The outline of the plan is explained in the following paragraphs.

With the advent of the 1970s, which will be a decade of big changes, this plan has as its basic aim the building of a better country where people can enjoy a pleasant life pertinent to its economic vigor, by maintaining a balanced economic growth along with a positive advance toward internationalization. The two important policies advocated by the plan are as follows:

(a) As it is expected that the internationalization of economic societies will make rapid progress, our economic structure should be renovated on our own initiative to cope with this worldwide movement. At the same time, the basic condition for further economic growth should be founded on positive co-operation with international society.

(b) The Japanese economy is expected to grow continuously at a high rate, and the big changes in the wake of a high economic growth will exert various influences on the society and the economy. In view of this fact, it is considered

TABLE IV
GROSS NATIONAL PRODUCT OF NEW ECONOMIC AND SOCIAL DEVELOPMENT PLAN
(In ¥1,000 billion and in per cent)

Items	Real (at 1965 prices)				Nominal (at current prices)					
	Fiscal 1968	Fiscal 1969 Estimates	Fiscal 1975	Annual Average Rates of Increase		Fiscal 1968	Fiscal 1969 Estimates	Fiscal 1975	Annual Average Rates of Increase	
				'75/'68	'75/'69				'75/'68	'75/'69
Gross national product	46.3	52.4	96.0	11.0	10.6	52.8	62.6 (100.0)	142.0 (100.0)	15.2	14.7
Personal consumption expenditure	23.8	26.3	44.7	9.4	9.3	27.5	31.9 (51.0)	70.7 (49.8)	14.5	14.1
General government current consumption expenditure	3.6	3.8	5.5	6.5	6.5	4.4	5.1 (8.2)	11.2 (7.9)	14.3	14.0
Gross private investment in plants and equipment	9.3	11.4	23.2	13.9	12.5	9.9	12.5 (20.0)	26.5 (18.7)	15.1	13.3
Private residential construction	2.7	3.2	8.0	16.6	16.5	3.4	4.2 (6.7)	15.1 (10.7)	23.9	23.7
Gross government fixed capital formation	4.1	4.5	9.7	13.0	13.5	4.6	5.3 (8.4)	13.5 (9.5)	16.7	17.0
External surplus	0.6	0.8	1.7	—	—	0.6	0.8 (1.4)	1.4 (1.0)	—	—

- Notes: 1. Fiscal 1969 estimates denote the government outlook (February 14, 1970) and tentative calculations based thereon.
2. Since inventory investment is excluded, details do not add to the total, because of the omission of increase in stocks.
3. () shows percentage of GNP.

necessary to heighten our adaptability to those possible changes, to forestall the bad side-effects that will be produced, to endeavor to stabilize prices so that the progress of the economy and the society will not be obstructed, to solidify the social foundation for the realization of a people's living standard commensurate with increasing economic power, and to build a really affluent society by re-emphasizing human values.

The potential growth capacity of the Japanese economy will continue to be strong in the years to come. However, the environment surrounding the economy, both nationally and internationally, will change greatly.

In these circumstances and according to the basic aim, the plan has put forth the following four points as the most important policy objectives that should be accomplished during the plan period.

TABLE V
BALANCE OF PAYMENTS (IMF SYSTEM) IN THE NEW PLAN
(At current prices, in billions of dollars)

Items	Fiscal 1969	Fiscal 1975
1. Current transactions		
Goods: Balance	3.8	7.8
Exports	16.4	37.4
Imports	12.6	29.6
Services: Balance	- 1.5	- 3.8
Transfers (net)	- 0.2	- 0.5
Current balance	2.1	3.5
2. Capital transactions		
Long-term capital: Balance	- 0.4	- 3.0
Basic Balance	1.8	0.5

(a) Improving economic efficiency from an international viewpoint

This means that Japan, facing progress in internationalization, will have to contribute to the development of international society and also will have to fulfill her great responsibility for the development of the developing countries, and that, in order to cope with the intensification of labor shortage and the soaring rise in consumer prices, will have to promote the efficiency of her economy.

(b) Stabilization of prices

In the process of rapid growth, the labor shortage has caused a rise in wages and incomes. Owing to differences in the rises in productivity, the upward movement of prices was not uniform. The recent rise in wages and incomes has intensified the upward pressures on consumer prices. It is probable that this rising tendency of prices will continue in the process of growth hereafter. If, however, drastic measures are taken to hold down the rise in prices by sharply reducing the rate of growth, other serious problems will arise in the fields of commodity balance and the balance of payments. Furthermore, it will become necessary for the government to intervene extensively in the private market.

In addition to the persistent upswing in consumer prices, wholesale prices have recently started rising. If the situation is left uncorrected, not only will any real improvement in the people's living be obstructed, but also the realization of a balanced growth will become difficult. In view of this situation, the plan advocates having the rate of increase of consumer prices fall gradually, from around 5 per cent in recent years to a level below 4 per cent in the final year of the plan. In regard to wholesale prices, the plan sets the aim of keeping them stable.

(c) Promotion of social development

Against the remarkable growth of the economy, the social aspects of the people's living have not been improved. In addition, along with the rise in income level, the desires of the people have become diversified and sophisticated. As it is expected that the economic society will become highly complex and various social conditions will change, and furthermore in view of the recent intensification of social tension, strenuous efforts should be devoted to the acceleration of social development. If social development is promoted more actively than before, however, the people's burden will also increase in proportion to the services and benefits they will enjoy. It will be necessary in the future to increase tax burdens and social insurance contributions.

TABLE VI
SOCIAL INDICATORS IN THE NEW PLAN

Items	Unit	Fiscal 1968	Fiscal 1975
Social environment			
Number of people of 65 years old and over	per cent	6.8	7.9
Average number of members per household (ordinary households)	persons	3.79	3.40
Amount of population living in "densely inhabited districts"	per cent	52.8	65.7
Income and private consumption level			
Per capita disposal income (nominal)	thousand yen	336	803
Level of per capita private consumption expenditure	fiscal 1965=100	126.5	219.3
Personal saving ratio	per cent	19.4	19.9
Percentage to the total consumption expenditure of households			
Foods and beverages	per cent	36.0	31.2
Miscellaneous	per cent	29.8	39.8
Social consumption and living environment facilities			
Area provided with sewage systems	per cent	21	38
Sanitary disposal of waste	per cent	89	100
Sanitary disposal of garbage	per cent	62	90
Per capita city park space	m ² /person	2.4	3.4
People provided with subscribers' telephones	set/100 persons	12	26

(d) Stable growth and demand management

The above three objectives should be achieved harmoniously under an adequate demand management. Moreover, in order to keep our economy prosperous, even after the termination of the plan period, the growth foundation should be continuously cultivated.

The plan includes important measures to achieve the policy objectives in Part 2. The following policies are advocated.

(a) Securing price stability

In order to stabilize prices, it is necessary, under an adequate demand management by fiscal and monetary policies, to make greater efforts in structural innovation, improvement of competitive conditions, positive adjustment of import policy, stabilizing the prices which are under government control, and curbing the rapid increase of land prices. In regard to the problem of prices-wages-income-and-productivity, earnest discussion should be encouraged among various strata of people, including trade unions and management, to reach a better understanding of the complexities of the problem on the side of public opinion.

(b) Extension of new external policies

With regard to the development of a new external economic policy, a large number of measures are being considered. They include the relaxation and or abolition of the residual import restrictions, lowering of customs tariffs, positive promotion of trade and capital liberalization, including the acceleration of liberalization of inward and outward investments, and the strengthening of economic cooperation.

(c) Renovation of the industrial structure

In the 1970s, such problems as labor shortage and difficulties in industrial location and in the procurement of natural resources will come to the fore, while the overall progress of internationalization, a shift to the "information society," and sharp changes in the demand structure both at home and abroad are also expected. It is necessary to meet these problems positively and to renovate the industrial structure into a more effective one from the long-term and international standpoints. For this purpose, efforts should be made to promote industrial efficiency by making the manufacturing industry more diversified and efficient. At the same time, efforts should also be made to realize high-productivity in agriculture, to renovate small business, to enhance integrated efficiency of the distribution sector, and to utilize the labor force effectively.

(d) Promotion of social development

For social development, emphasis should be placed, from the standpoint of respect for humanity, on the assurance of amenity in the living environment, the safeguarding of human life, and the protection of those people who cannot enjoy the benefits of economic development. For these purposes, the following measures are suggested: (i) the building of attractive communities in large cities, local cities, and rural areas, (ii) the replenishment of social wealth, stabilization of land prices and improvement of housing and environments, (iii) the elimination

of pollution, (iv) the protection of consumers, and (v) the replenishment of social security programs.

(e) Cultivation of development foundations

Investment in social overhead capital amounting to about ¥55,000 billion (at fiscal 1969 prices, including land purchase expenses) will be made over the six years from fiscal 1970 to 1975, in line with the longer-term principles for the utilization of national land advocated in the "New Comprehensive National Development Plan" (in which the basic direction of national land development during the twenty years up to fiscal 1985 is given). All the possibilities for development throughout the country will be given consideration. At the same time, measures should be taken to promote technological development, to promote the effective utilization of information, and to promote education and manpower policy.

(f) Fiscal and monetary policies

To accomplish the policy objectives, fiscal and monetary policies must be allowed to function effectively in the allocation of resources, the adjustment of the business cycle, and the redistribution of income. In the field of fiscal policy, efforts should be made to maintain sound public financing of the national and local governments. In regard to monetary policy, a stronger integrated combination of internal and external policies should be realized.

In Part 3 of the plan "Prospects of Economic and Social Development," an attempt has been made to show graphically the overall picture of the economy and society. In getting an overall picture, a medium-term macro-econometric model (based on the data of fiscal 1954-68) was used, with necessary measures being taken into consideration.

The economic growth rate during the plan period was set at about 10.6 per cent on annual average. This decision was based on the following two conditions.

(i) The growth potentiality of the Japanese economy has been strengthened, and the balance of payments, which used to be one of the important factors restricting the economic growth, has now become basically favorable. (World imports in real terms, excluding Japan's imports, were assumed to increase by about 7.5 per cent annually.)

(ii) It is anticipated that increases in the labor force will slacken and that pressures to force price rises will be strong. (The increase rate of the labor force is expected to fall appreciably from 1.6 per cent for fiscal 1963-68 to about 1.1 per cent over the plan period, and, in addition, the number of young workers will decrease, resulting in a change in the age structure of the labor force toward an older one.)

If the Japanese economy grows at around this rate, the economic strength of Japan will expand 1.8-fold in real terms over the coming six years. The gross national product in nominal terms for fiscal 1975 will amount to about ¥140,000 billion, and per capita national income will increase from ¥490,000 for fiscal 1969 to about ¥1,000,000.

According to the plan, the percentage of private consumption expenditure for

fiscal 1975 will be about 50 per cent of the gross national expenditure in nominal terms, almost the same as at present. The percentage of capital formation will be continuously at a high level, of which private residential construction will greatly increase its share, and the percentage of government fixed capital formation will also increase, though modestly.

The rate of increase of consumer prices will be curbed to a level below 4 per cent by the final year of the plan period, under ceaseless and strong measures to stabilize prices, including the positive utilization of import policies, while maintaining an adequate economic growth. On the basis of various conditions such as the increase of the labor supply, the economic growth rate, and the rate of price increases envisaged in the plan, the compensation of employees is expected to increase at about 15.8 per cent, and its value per employee at 12.1 per cent per annum on the average.