Open Access Library Journal
2026, Volume 13, e15783
ISSN Online: 2333-9721
ISSN Print: 2333-9705

Japan's Economic Revival and Political System after World War II

Kecheng Shen

College of Humanities, Zhejiang Normal University, Jinhua, China
Email: 2373090119@qq.com

How to cite this paper: Shen, K.C. (2026) Japan's Economic Revival and Political System after World War II. *Open Access Library Journal*, **13**: e15783.
https://doi.org/10.4236/oalib.1115783

Received: July 20, 2026
Accepted: August 14, 2026
Published: August 17, 2026

Abstract

Japan's postwar economic revival was not a passive outcome imposed by the United States; rather, it was the product of active choices made by Japanese political elites who, driven by a consciousness of economic autonomy, leveraged the institutional foundations laid by the US occupation reforms and deliberately adopted an "economy-first" development strategy. By analyzing the deep interaction between politics and the economy under the "1955 System," this paper reveals how this model, while propelling miraculous economic growth, gradually generated internal contradictions such as political-business collusion and strategic dependence, and eventually collapsed with the end of the Cold War.

Subject Areas

History

Keywords

Postwar Japan, Economic Revival, Economy-First Strategy, Political System

1. Introduction

On August 15, 1945, Japan accepted the Potsdam Declaration, announced its unconditional surrender, and embarked on a difficult journey of postwar transformation. The development of postwar Japan has often been viewed as a passive process under American dominance, but recent research shows that Japanese political elites displayed a strong awareness of economic autonomy as early as the early occupation period. In this paper, "economic autonomy" refers specifically to Japan's strategic capacity, under the overarching goal of restoring and developing its own economy, to proactively utilize external conditions and seek the maximization of its national interests within a limited space. This concept emphasizes the initiative in goal-setting and path selection, rather than complete independence from external systems (such as US security guarantees, the dollar-based exchange rate system, or the institutional reforms during the occupation period). Taking this as its starting point, this paper examines the interaction between Japan's economic revival and its political system from 1945 to 1991, analyzes the institutional foundations established by US reforms, explores the formation process of the "economy-first" approach and the "1955 System," and evaluates the internal contradictions and long-term effects of this model, thereby presenting a picture of Japan's development within confined space.

2. Reform during the US Occupation Period

Against the backdrop of the Cold War, US occupation policy toward Japan underwent a significant shift from an initial "punitive reform" phase to a later "supportive revival" phase [1]. Within this policy framework, a series of compulsory reforms profoundly reshaped Japan's economic and social structure.

2.1. Land Reform

Land reform was one of the most far-reaching social reforms in postwar Japan. Before the war, Japan's agricultural production relations were centered on the landlord system, with a small number of landlords owning vast tracts of land and tenant farmers bearing heavy rents. From 1946 to 1949, under the directive of the US occupation authorities, the Japanese government enacted the Law for the Establishment of Owner-Farmers through Special Measures, which compulsorily purchased all land held by absentee landlords and any land held by resident landlords in excess of stipulated acreage, and resold it to tenant farmers at low prices. After the reform, the number of owner-farmer households increased from 1.729 million in 1945 to 3.822 million in 1950, and owner-cultivated land accounted for 90% of the nation's total agricultural land, marking the virtual withdrawal of the parasitic landlord system from the historical stage [2].

Land reform not only alleviated class contradictions in rural areas but also generated multiple economic effects: first, farmers' production incentives improved, grain output grew steadily, providing a stable supply of agricultural products for industrialization; second, farmers' incomes increased, initially unleashing rural consumption potential; third, some rural labor was freed from land bondage, supplying reserve manpower for urban industrial development.

Together with the subsequent Agricultural Cooperative Association Law, land reform built the basic framework for postwar Japanese agriculture and provided an important foundation for overall stability during the postwar economic recovery.

2.2. The Dodge Line

To achieve Japanese economic self-reliance and reduce the US burden, Detroit banker Joseph Dodge went to Japan in February 1949 as a special envoy to implement a set of policies centered on fiscal austerity. Dodge likened the Japanese economy to a man on stilts, with one leg dependent on US aid and the other on domestic subsidies, in danger of falling at any moment.

The Dodge Plan included: Formulation of a super-balanced budget: the FY1949 budget not only achieved an overall balance but also generated a huge surplus of 257.7 billion yen, used to repay national debt and curb inflation; Abolition of various price subsidies and termination of new financing by the Reconstruction Finance Bank; Establishment of a single exchange rate, fixing the yen-dollar rate at 360 yen to the dollar, ending the chaotic multiple-exchange-rate system of the immediate postwar period. This fixed rate remained in place until the collapse of the Bretton Woods system in 1971, providing Japanese firms with long-term stable expectations for international trade [3].

The implementation of the Dodge Line was accompanied by deep involvement of American experts. Economist Martin Bronfenbrenner, as a tax economics expert at the General Headquarters of the Allied Powers, not only supported Dodge's austerity policy but also directly participated in tax reform and the formulation of the exchange rate for Okinawa's currency [4]. He harshly criticized the earlier Keynesian inflationary policies of Shigesaburo Ishibashi, arguing that they would hinder economic stabilization.

Austerity measures came at a certain cost in the short term: sharp cuts in government expenditure led to insufficient aggregate demand, inventories piled up, industrial production stagnated in the second half of 1949, a wave of small- and medium-sized business bankruptcies emerged, and unemployment soared. Nevertheless, the Dodge Line curbed runaway inflation, stabilized the price index, and paved the way for Japan to integrate into the international economic system centered on the dollar. The establishment of a single exchange rate meant that Japan was formally incorporated into the Bretton Woods system, enabling its foreign trade to proceed under transparent and stable rules. In the long run, this approach laid a macro-stable foundation for postwar economic revival, forced enterprises to shift from relying on fiscal subsidies to market competition and efficiency improvement, and created conditions for further functioning of market mechanisms.

3. Formation of the "Economy-First" Strategy and the "1955 System"

The establishment of Japan's postwar development path was not only a product of external pressures, but also the result of active choices made by Japanese political elites. From the perspective of the institutional frameworks and resources provided by the US occupation authorities, policies such as land reform and the Dodge Line objectively prepared the conditions for economic recovery. However, transforming these external conditions into a sustained national strategy depended on a series of proactive initiatives by Japan's domestic political elites: Hitoshi Ashida's diplomatic practice of trading diplomatic concessions for economic space, Shigeru Yoshida's establishment of the "light armament, heavy economy" policy, and Hayato Ikeda's introduction of the National Income Doubling Plan—all of which exemplify Japan's autonomous choices in determining its national development direction.

3.1. Early Postwar Diplomatic Practice and the Demand-Driven Push of the Korean War

During his tenure as Foreign Minister in the Tetsu Katayama cabinet from 1947 to 1948, Hitoshi Ashida's diplomatic activities were driven primarily by economic revival. Facing the dire economic situation immediately after the war, Ashida viewed an early peace treaty as the key to restoring international trade and achieving economic self-reliance. In the "Ashida Memorandum" submitted in July 1947, he particularly stressed the hope that no heavy restrictions would be imposed on Japan's trade, transportation, fishing, and other economic activities of the Japanese people, and he personally annotated this clause, showing his special concern for economic provisions [5]. When US-Soviet relations deteriorated, Ashida quickly adjusted his stance, permitting the United States to use Japanese bases in emergencies in exchange for US support for Japan's economic reconstruction. This indicates that, in Ashida's strategic calculus, security arrangements were a means, while economic revival was at the end. Although Ashida fell from power due to the Showa Denko scandal [1] and his proposals were not fully accepted by the United States, his diplomatic practices clearly show that Japanese political elites had already formed a strategic thinking of trading diplomatic concessions for economic development space, which laid the groundwork for the later "Yoshida Doctrine." [2]

The outbreak of the Korean War in 1950 became a turning point for Japan's economic revival, as war-related special procurements (so-called "special demand") boosted the economy. These demands concentrated in textiles, steel, machinery, trucks, and other industries, not only absorbing the excess inventories accumulated during the Dodge Line but also reactivating idle capacity. Japan's industrial production index surpassed the prewar level in October 1950, and corporate profits rebounded sharply. The "special procurement boom" not only brought short-term prosperity but also enabled Japan to accumulate valuable foreign exchange reserves, providing funds for subsequent equipment investment and technology imports, and laying the foundation for Japan's economic modernization.

3.2. The "1955 System" and the Political Support of the US-Japan Security Treaty

Against this background, 1955 became a pivotal year for the institutionalization of Japanese politics and economics. That year, the left and right wings of the Socialist Party unified, prompting conservative parties—the Liberal Party and the Democratic Party—to merge into the Liberal Democratic Party (LDP), forming the "1955 System," characterized by the LDP's long-term rule and the Socialist Party as the main opposition.

This system had three distinctive features: First, the LDP monopolized political power for long periods by maintaining a stable majority in the House of Representatives, while the Socialist and other progressive forces could act as a check but could not replace the government [6]. Second, the LDP, senior bureaucrats, and big business groups formed an "iron triangle" through organizations such as Keidanren (Japan Business Federation); business circles provided political funds to the LDP, and the LDP, in turn, used legislation and administrative measures to protect business interests, with bureaucrats playing the pivotal role in policy formulation and implementation. Third, the LDP was faction-ridden, and the prime minister typically rotated among mainstream factions, which helped maintain a degree of policy continuity.

The "1955 System" was essentially a domestic projection of the Cold War structure. The United States needed a stable, pro-American Japanese regime to contain communism in East Asia, and thus tacitly supported or even encouraged the LDP's one-party dominance. The LDP regime, in turn, exchanged public support for national resources concentrated on economic development. In 1960, the cabinet of Hayato Ikeda launched the National Income Doubling Plan, marking the full institutionalization of the "economy-first" strategy. The plan promised to double national income within ten years, and through large-scale public investment, industrial promotion, and trade liberalization, it diverted public attention away from intense security debates [7].

The US-Japan Security Treaty served as the military-diplomatic pillar of this strategy. The original treaty signed in 1951 and the revised treaty of 1960 made Japan heavily dependent on US protection for its security, thereby enabling it to compress defense spending to below 1% of GDP, far lower than that of contemporary European and American countries. Shigeru Yoshida had proposed that the savings from reduced military expenditure be channeled into economic construction [8]. This strategy made it possible for Japan to continuously invest huge sums and top talent into civilian industrial R&D and equipment renewal, and it was one of the important reasons for its economic miracle.

4. Political Logic, Internal Contradictions, and Long-Term Effects of the Economic Miracle

Under the aegis of the "1955 System," Japan created an economic miracle that drew worldwide attention. From 1955 to 1973, Japan's real GNP grew at an average annual rate of over 9%, and by 1968 its economy had become the second largest in the capitalist world. This achievement was made possible by a series of uniquely Japanese institutions and socio-economic structures.

Economic ministries such as the Ministry of International Trade and Industry (MITI) maintained close communication with the business community through "administrative guidance" and industrial policies, jointly formulating industrial development plans that enabled rapid resource allocation to priority industries. Within firms, lifetime employment, seniority-based wages, and enterprise-based unions fostered strong employee loyalty, stabilized the skilled workforce, and promoted internal technology accumulation. Land reform, labor legislation, and educational expansion collectively contributed to the growth of a middle class. According to a poll conducted by the Prime Minister's Office of Japan in 1970 for the White Paper on National Life, among the total national population of 100 million, more than 90% of Japanese people rated their class status as "middle class," which formed a large consumer market that supported the booming development of consumer durables industries such as home appliances and automobiles, thereby expanding the domestic market [9].

However, this growth model was deeply intertwined with the political system, and it also bred inherent contradictions and long-term risks that were difficult to overcome.

The LDP's long-term incumbency relied on political donations from business circles, while business circles, in return, obtained policy favors, public works contracts, and deregulation. This relationship gave rise to corruption. In the second half of 1966, a series of political scandals within the Liberal Democratic Party, dubbed by the media as the "Black Mist" incidents, plunged the cabinet of Eisaku Sato into its first governing crisis. In 1976, former Prime Minister Kakuei Tanaka was formally arrested by the Tokyo District Public Prosecutors Office on suspicion of having received a bribe of 500 million yen from the American Lockheed Corporation while in office. In the Recruit bribery case exposed in 1988, the briber delivered benefits to political newcomers through covert means such as gifting unlisted shares, which was described by the media as an "escalation and mutation of Japan's traditional money politics." These scandals, erupting periodically, severely undermined public trust in politics [7].

Moreover, Japan's heavy reliance on US military protection and its lack of strategic autonomy meant that Japanese diplomacy long lacked independence, and it often had to concede in trade frictions with the United States. At the same time, the "economy-first, military-light" approach also meant that after becoming an economic giant, Japan long remained unable to play a political and security role commensurate with its economic strength, being regarded as an "economic giant but political dwarf." [10]

Entering the 1990s, with the end of the Cold War and the collapse of the bubble economy, the internal and external conditions that sustained the "1955 System" changed dramatically. The United States no longer needed to unconditionally support a one-party-dominant Japanese government and instead pressured Japan to open its markets. Domestically, economic stagnation exposed the rigidity and inefficiency of the bureaucratic-led system, political corruption triggered strong public discontent, and the traditional base of social support was shaken by structural changes.

In the post-Cold War era, Japan entered a period of adjustment under a "post-1955 System," characterized by a weakened LDP dominance and the normalization of coalition governments [11]. At the same time, debates over Japan's identity as a "peace state" intensified. Conservative forces represented by Shinzo Abe pushed for reinterpretation of the constitution, lifting the ban on collective self-defense, and strengthening US-Japan military integration, attempting to break free from the postwar regime. These phenomena show that the postwar economy-first approach and the pacifist consensus are facing unprecedented challenges and reconstruction.

5. Conclusions

The postwar economic revival and political system evolution of Japan were an "endogenous development" actively chosen and continuously advanced by Japanese political elites, built upon the institutional foundations laid by US occupation reforms. Through compulsory reforms such as land reform and the Dodge Line, as well as the proactive adoption of the "economy-first" strategy and the "1955 System," Japan succeeded in concentrating national resources on economic growth within the Cold War framework, creating a miracle of high-speed development and demonstrating its agency in seeking an independent path within confined space.

However, this model—highly dependent on US security protection and trading political stability for economic growth—also embedded structural contradictions such as political-business collusion, recurrent corruption, and loss of strategic autonomy. With the end of the Cold War and the burst of the economic bubble, the "1955 System" eventually collapsed. This indicates that a model successful under specific historical conditions must adjust to changes in both internal and external environments, and that a country's long-term development needs to balance economic efficiency with strategic equilibrium.

Conflicts of Interest

The author declares no conflicts of interest.

References

[1] Yin, X.Z. (2000) US Support and Japan's Economic Rise. *Qiushi Journal*, **136**, 115-118. (In Chinese)

[2] Lin, W.H. (2020) Causes and Implications of Japan's Postwar Economic Takeoff. *Co-operative Economy & Science and Technology*, No. 24, 10-12. (In Chinese)

[3] Liang, W.L. (2002) A Brief Analysis of the Reasons for Japan's Dodge Line after World War II. *Educational Review*, No. 3, 110-111. (In Chinese)

[4] Ikezumi, A., Zhang, F. and Yin, X.L. (2011) Martin Bronfenbrenner and the Reconstruction of Postwar Japan's Economy (1949-1952). *Japanese Studies*, **25**, 1-8. (In Chinese)

[5] Li, Z and Xu, X.F. (2021) A Re-Examination of Economic Factors in Ashida Diplomacy in Early Postwar Japan. *Journal of Lanzhou University* (*Social Sciences*), **49**, 129-135. (In Chinese)

[6] Shen, M.H. (2003) Causes of Formation of Japan's "1955 System" and the Roots of Its Disintegration. *Jiangxi Social Sciences*, **24**, 194-197. (In Chinese)

[7] Wang, X.J. (2006) An Interpretation of Japan's "1955 System". *Climbing*, **25**, 58-62. (In Chinese)

[8] Ohya, S. and Li, X.X. (2023) The Evolution of Japan's Postwar Economic Diplomacy Route. *Japanese Studies*, **39**, 1-32+149. (In Chinese)

[9] Li, N.Z. (2016) Causes of Rapid Economic Development in Early Postwar Japan. *Enterprise Guide*, **17**, 18. (In Chinese)

[10] Jin, Y. (2025) Reflections on "Peace State" Japan on the 80th Anniversary of the End of the War. *Japanese Studies*, **41**, 90-98. (In Chinese)

[11] Liu, X.F. (2001) Japan's Political Crisis in the 1990s and the Post-1955 System. *Japanese Studies Forum*, **38**, 47-54. (In Chinese)